The 1992 Manitoba Budget

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Finance
of Manitoba

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THE 1992 MANITOBA BUDGET ADDRESS

The Honourable Clayton Manness
Minister of Finance
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THE 1992 MANITOBA BUDGET

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Mr. Speaker:

I am honoured to present our Government's fifth Budget to the Legislative Assembly and the people of Manitoba.

The Budget is aimed at helping speed Manitoba's recovery from the recession that is affecting the entire country. It is a recovery that will not be quickly or easily won. However, it can be accomplished through hard work, determination and a sense of purpose that is shared by all Manitobans.

Reasons for Manitobans to be hopeful are beginning to emerge. Inflation rates have eased significantly; interest rates are 6½ percentage points lower than their 1990 peak; the dollar has dropped toward more sustainable levels; some commodity prices are rising and there are signs of recovery amongst our trading partners.

The Conference Board of Canada forecasts that Manitoba's economy will grow faster than the national average in 1992, as the Canadian economy recovers from the recession.

Slowly but surely, a renewed sense of optimism is building in Manitoba and across Canada.

In order to build on the gains we have made to date, we must continue to work at restructuring our economy. Business must continue to strive to be as competitive as possible. We must apply new ideas to create goods and services that will be in demand, not just at home, but internationally as well.

Government, too, must employ perseverance, innovation and substantial effort to provide services in an efficient and cost-effective way. We must continue to find new and better ways of delivering important human services within the limits of the taxpayers' ability to pay.

The determination and commitment of Manitobans to share the burden of the recession has put our Province in a strong position as recovery begins. We have battled through bankruptcies, layoffs, high unemployment rates and a significant decline in retail sales.

By continuing to work together we can take advantage of our many natural strengths to add momentum to the recovery, and help rebuild confidence. In the final analysis, our recovery will only be as strong as Manitobans make it. I am confident the recovery is in good, strong, hard-working hands.

PATH TO RENEWAL

Manitobans want a strong province with economic opportunities that create jobs for themselves and their children. They also want key health care, education and family services maintained.

It has long been recognized that the best social program is having a meaningful job. In order to build a strong economy capable of creating jobs and supporting vital services, we must continue to keep taxes down and the deficit under control. The key to lower taxes and reduced debt lies in controlling Government spending.

Since 1988, our Government has worked hard at that task. Yes, the job required us to make difficult decisions and to choose our priorities carefully. We realized then that Government spending sprees mean big deficits, which translate into higher taxes and fewer jobs.

By priorizing Government spending, we were actually able to cut taxes in our first Budget. Since then, we have continued our battle against high taxes, and are proud of the fact that not once in those four years did we raise personal or corporate income taxes or the provincial sales tax. That is a record unmatched by any province in Canada, and a distinction we will work hard to keep.

Unlike other jurisdictions, our Government remains committed to maintaining capital investment to improve long-term competitiveness while bolstering immediate economic recovery.

We have worked hard to create a positive climate in which Manitoba businesses can prosper and grow. Our increasing reputation as one of the best places in Canada to invest is proof that this strategy is beginning to work.

Together, we must forge a strong partnership among Government, business and labour, to capitalize on every new opportunity to create jobs and build a strong economy. As a Government, we must also maintain and improve the competitive advantage we have worked together to gain for Manitoba. There can be no return to high spending and high taxes. Consumers, businesses and workers in all sectors expect us to keep taxes down. This Budget confirms that our Government listened to Manitobans and understands the message.

POSITIONING FOR ECONOMIC GROWTH

Manitoba is a trading province; we rely on the markets of our trading partners, especially other provinces and the United States. In large measure, our ability to export and to generate more jobs and incomes for Manitobans depends on the capacity of our trading partners to buy what we have to sell. And, for the most part, the economies of our customers are performing below capacity. We cannot create growing demand and recovery in our partners' economies.

But, we can ensure that Manitoba is positioned to take maximum advantage of the national and international recovery. Manitoba's cost structures must be trimmed to enable our people and businesses to seize the opportunities that will emerge with recovery. Our tax levels help determine whether Manitoba will be competitive when the recovery takes off. Our debt levels determine whether we will be able to stay competitive. Therefore, a cornerstone of our economic strategy must be to control the cost of Government. Let there be no misunderstanding: the cost of Government is debt and taxes.

A RESPONSIBLE BUDGETING FRAMEWORK

A responsible budgeting framework is fundamental to responsible fiscal planning. Last year, our Government took several steps to improve the Province's financial management. We recognize that government is not exempt from structural change.

As a first step, we instituted an internal reform process. Last year's Budget actually reduced year-over-year spending in about one-half of all Departments of Government. By securing reductions in administration and management costs, we are able to ensure that more of the Budget can be spent on serving Manitobans. The sale of Manitoba Data Services has strengthened strategic economic development opportunities in the province, and reduced data processing unit costs in Government. This year, the Government is establishing the Fleet Vehicle Branch of Government Services as a special operating agency. Overall, there are more than 1,100 fewer positions in Government today than two years ago. Manitoba's Government is no larger than it was in 1986.

Second, we instituted a revised Estimates process. The new process puts decisions about the overall tax burden facing Manitobans first and foremost. Making responsible spending decisions within the limits of what taxpayers can afford, is essential to ensure the continued delivery of vital public services for Manitobans.

Third, we maintained a course of fair but affordable public sector wage negotiations. Last year, the overall target of 3% growth in public sector wages required a freeze on Provincial civil service salaries in order to pay for larger increases to others—in particular, to nurses. Regrettably, many public entities, including the City of Winnipeg, many school divisions and universities, chose not to exercise similar restraint, with predictable results. In many cases, these public entities would be better able to maintain services and jobs and avoid tax or fee increases this year if they had implemented similar wage moderation.

By keeping the deficit under control over the past four years, we are now able to realize some benefit from current lower interest rates. Our Administration also set funds aside for difficult times by establishing the Fiscal Stabilization Fund. The Fiscal Stabilization Fund and reduction in public debt costs, afford us a measure of breathing room this year to help maintain priority programs without increasing the annual deficit or raising taxes.

Internal reform, the new approach to the Estimates process and public sector wage moderation, all provide a framework to reduce the deficit as the economy improves. This framework will enable us to make the responsible choices necessary to protect vital public programs, and deliver them more efficiently, on a basis affordable to the taxpayer.

MAJOR TAXES FROZEN FOR A FIFTH YEAR

Manitobans cannot and should not be burdened with more taxes.

- There will be no increase in personal income taxes. Since 1988, Manitobans' personal income taxes have been reduced by over $60 million annually.

- There will be no increase in Provincial taxes on business. We will continue working to help Manitoba business regain its competitive edge.

- There will be no increase in sales taxes.

Freezing major taxes for a fifth consecutive year protects the significant improvements in Manitoba's tax competitiveness secured over the last four years. This Budget provides further tax relief with a $10 million reduction in Provincial education taxes for homeowners throughout the province.

While we kept a lid on taxes and provided some targeted reductions, other provinces imposed increases. Although Manitoba taxes remain higher than we would like, our position relative to other provinces has improved. The overall burden of Manitoba taxes is now much more attractive in relation to our major competitors. At the First Ministers' Conferences in December and in January, Premier Filmon called for a national freeze on major taxes as a key measure to rekindle confidence in the economy.

Our capacity to maintain these competitive gains and important targeted incentives periodically comes under threat from tax avoidance practices. We are, therefore, moving to tighten up tax enforcement rules to prevent the use of artificial business practices; anti-avoidance legislation will be introduced.

We are working hard to achieve tax fairness and leave as many hard-earned dollars as possible in taxpayers' pockets, to stimulate demand and investment right here in Manitoba.

STRENGTHENING OUR ECONOMY

Economic success today, tomorrow and in the future hinges on our ability to compete with the best in the world. Manitobans have proven they can do just that. Our agricultural products—including grains, oilseeds, red meats, poultry, potatoes and honey—often command a premium in international markets because of superior quality. Many of our manufacturers are very successful in export markets: if you buy a silk blouse in Saks Fifth Avenue in New York, or a lottery ticket in Spain, or french fries in Tokyo, or ride a bus in San Francisco, chances are it was produced right here in Manitoba.

The Unisys Canada computer plant in Winnipeg is an excellent illustration of how competitive Manitobans can be. It is now the only plant in the world manufacturing disk drives for Unisys computers. Just a few years ago it was one of ten plants scattered around the world in places like Tennessee, California, Mexico and Singapore. In spite of much lower wage rates in some of those factories, the other nine were shut down and work moved here because Manitoba was building a more competitive product. How did this plant accomplish this feat? The answer is straightforward: superior employees, most of whom were educated in Manitoba.

Further evidence that Manitobans are ready and able to compete is found in the recent Statistics Canada survey of investment intentions. Private investment in Manitoba is expected to grow 7.4% in 1992—the second highest increase among the provinces; and manufacturing investment is expected to grow 31%—the best performance in the country.

ECONOMIC RENEWAL INITIATIVES

To thrive in this new, more competitive environment, we cannot be satisfied with past accomplishments. We must continually strive to be the best. As a Government, we must champion better co-ordination and partnership among Government, labour and the private sector. We are taking several steps to sharpen the economic development focus within Government. We are proposing some targeted incentives to help accelerate business activity and strengthen economic renewal and job creation in our province. This forward-looking economic renewal package is intended to give investment in Manitoba an added boost during the recovery, and build for the 21st century.

Refocussing Economic Development Activities

The new Economic Development Board of Cabinet, chaired by Premier Filmon, provides the leadership necessary to co-ordinate Government-wide efforts for sustainable economic growth. The restructured Industry, Trade and Tourism Department will emphasize strategic initiatives under a more project-oriented approach. Working with individual firms and groups of companies, the Department will serve as a catalyst to create new development opportunities.

The overall budget for Economic and Resource Development is set at $604 million, up 6.3%.

Partnerships for Industrial Development

The new $20 million Manitoba Industrial Recruitment Initiative Program gives focus to our efforts to stimulate expansion of Manitoba industry, and to attract new business investment and jobs. The Program will provide secured loans with forgiveness directly related to job creation.

The Crocus Investment Fund, established earlier this year, assists employees to assume an ownership role where they work. The Vision Capital Fund provides venture capital investment to help Manitobans with good ideas turn them into reality. The strengthened Manitoba Industrial Opportunities Program is encouraging companies to build on the advantages of investing in Manitoba.

Our ongoing commitment to the development of successful economic initiatives in rural Manitoba communities is strengthened in this Budget. Over $2 million has been allocated for Rural Economic Development Initiatives. This program, funded from revenue generated by Video Lottery Terminals, will help communities upgrade local infrastructure, and fund youth employment initiatives. The Grow Bond Program helps rural communities intensify efforts to strengthen their local economies, and create more jobs.

Manufacturing

We are introducing a temporary 10% income tax credit for investment in new manufacturing and processing in Manitoba. This will encourage business to accelerate existing investment plans and to consider new investment opportunities in our province. We want to turn the good news on investment intentions into real investment and jobs in our province. The new credit will be available on investment in new buildings, machinery and equipment undertaken between Budget night and June 30, 1993. This measure will give export-oriented industry added impetus to modernize and upgrade and become more competitive.

Technology

The Manitoba Economic Innovation and Technology Council will help foster industrial innovation and technological commercialization by developing partnerships among Government, business, labour and the research community. The Economic Innovation and Technology Fund, financed by a portion of the proceeds from the sale of Manitoba Data Services, focusses new resources in this important area.

To complement the efforts of the Council and to further strengthen this vital activity in our province, a new Manitoba Research and Development Tax Credit will be introduced.

Export-Oriented Service Industries

Manitoba's central time zone, skilled labour force and good quality of life make the province a natural candidate for central office processing operations, especially in financial, shipping and communication services. That is why United Parcel Service is establishing Winnipeg as the hub for all its cross-border freight destined for Western Canada.

To foster more activity in this growing area, I am pleased to announce a sales tax exemption for "800" numbers, and extension of the Payroll Training Tax Credit to include training programs delivered in export-oriented service industries.

Transportation

Transportation is a key to development and growth in our province. Jobs throughout the province depend on our ability to get products to market quickly and efficiently. We are acting to improve Manitoba's transportation network and to bring Manitoba's transportation taxes more in line with other provinces.

Investment in our highways network will be fully maintained in this Budget. This investment in our vital transportation links will provide important jobs this year, with a longer-term payback in greater efficiency.

At the recent First Ministers' meetings on the economy, Premier Filmon called on the federal government to increase its investment in asset-creating capital projects to stimulate employment and economic activity across the country. He referred specifically to a National Highways Program. Such a program would strengthen domestic and international trade links, improve highway safety and increase employment.

In my previous Budgets, action was taken to help the trucking industry. Our on-road diesel fuel taxes are currently among the lowest in the country.

The rail industry is another important mainstay of our transportation sector. It is labouring under extremely high fuel taxes. Along with streamlining our method of collecting this tax, the railway locomotive fuel tax rate will be cut by 1¢, to 12.6¢ per litre effective July 1, 1992.

The Winnipeg International Airport has tremendous growth potential, especially as a major hub for regional, national and international distribution. An increasing number of companies, including Federal Express have signalled their interest in Winnipeg. To help foster growth in this fast-paced sector, and create more jobs, the aviation fuel tax will be reduced by 0.8¢, to 5.0¢ per litre on July 1, 1992.

Mining

We recognize the important contribution of mining to the economic activity of our province, including direct and service jobs and export earnings. We are determined to secure its future. The Manitoba Mineral Exploration Incentive Program announced last year is now operational. Further action will be taken in this Budget. Exploration incentives allowed under the mining tax will be strengthened. The Corporation Capital Tax on exploration costs will be eliminated. And, as an added step to help revitalize exploration and development of new mines in Manitoba, I am pleased to introduce a mining tax holiday. The holiday will permit companies to recover their full investment in new mines prior to the mining tax being applied.

Agriculture

Recent years have been very difficult for many farmers. Last year, Manitoba farmers faced some of the lowest grain prices in two decades, aggravated by the international subsidy war. We will continue to stand with our farmers in these difficult times. Resources deployed through the Agriculture Department will increase by $23 million or 21%. The entire increase is needed to underwrite the Provincial share of the Gross Revenue Insurance Plan and the Net Income Stabilization Account.

There is some encouraging news for the future, including renewed hope for a balanced resolution at the GATT talks. As well, for the first time in several years, there are some solid signs of improving conditions, especially for grain and oilseeds farmers. World supply is down and prices are rising. The price of wheat on the spot market has climbed approximately 50% since last spring. Thanks to good crops in Canada and below-normal crops in some other countries, Canada's grain exports may reach a record high this year. In addition, the sharp decline in interest rates reduces the interest costs borne by farmers and contributes to an improved outlook.

Cross-Border Shopping

Cross-border shopping is providing added competition for consumers' dollars with over $300 million leaving Manitoba annually. That translates into at least 2,000 lost jobs. We must take action to stem the growing cross-border shopping threat.

Federal collection of provincial taxes at border crossing points is essential to creating a more level playing field for Manitoba businesses. The federal government has agreed to collect Provincial tobacco and alcohol taxes at the border. We have also suggested that Ottawa begin collecting sales taxes at the border on a selected list of items currently taxed in all sales tax jurisdictions. We will not fight cross-border shopping by imposing new taxes on in-province purchases, particularly books and children's clothing, as initially suggested by the federal government.

My officials are also working with federal officials to streamline sales tax rebates to foreign tourists. We are hopeful that it will be possible to use a single administration for rebates of Provincial as well as federal taxes later this year. This will help Manitoba businesses compete for the tourist dollar.

Environment

The Government's emphasis on protecting the environment will be strengthened. New funding will be provided for environmental assessments and implementation of the Ozone Depleting Substances Act.

Work is advancing on means of reducing harmful waste, including possible extension of environmental protection taxes to disposable diapers and tires. The Government will ensure that all the revenue yielded through such environmental taxes is fully invested in planned measures to protect the environment. The Minister of the Environment will be introducing the Province's action plan later in this Session.

The Manitoba Hazardous Waste Corporation is proceeding with the next steps toward the approval and development of a world-class facility for the safe disposal of hazardous wastes in our province. This initiative will require a large capital investment and create jobs in the R.M. of Montcalm and district.

Capital Investment

Capital investment in permanent assets can and does play an important part in job creation. In 1992/93, the combined budgetary and non-budgetary capital-related programs of the Government, the Crown corporations, and other agencies exceed $1.1 billion. This investment will provide work opportunities for Manitobans and enhance needed infrastructure to support future growth. The non-budgetary capital-related program totals $812 million for the coming year. The budgetary capital total is $306 million, including $38 million for education and training, $57 million for health and $113 million for highway and road construction and upgrading.

PRIORITY SOCIAL PROGRAMS

This Budget allocates $3.5 billion for priority social programs, including increases of:

- $101 million or 5.7% for Health (that is, three times the rate of inflation);
- $51 million or 8.7% for Family Services (four times the rate of inflation); and
- $52 million or 5.5% for Education and Training (three times the rate of inflation).

Health

Reform of Manitoba's health care system must continue to enable service delivery to be maintained despite limited financial resources.

These reforms must be designed to better reflect patient needs and preferences while ensuring services are delivered in the most cost-effective manner possible. Services can be strengthened and costs contained by shifting toward services provided in the community where people live and work.

To support this strategic plan, major funding increases have been provided for both Home Care and Personal Care Homes. In addition, the Manitoba Health Services Improvement Fund has been established to provide incentives to health care institutions which demonstrate improved quality and efficient services. Increases to the Health Services Development Fund provide further support for proposals which demonstrate potential for significant health care reform. Budgets for health promotion, protection and disease prevention have also been increased, including funding targeted for substance abuse prevention.

Family Services

The Department of Family Services is proceeding with several new and expanded initiatives. An Office of the Children's Advocate will be established to ensure that children in care are protected and well treated. Day care operating grants are increased. The wife abuse shelter system and related services are enhanced. A $40 million increase in the social assistance budget is focussed on meeting the recession-induced needs of Manitobans and on improving supplementary benefits for the disabled by $8 million.

Additional resources have also been provided in support of the justice system, especially for the Family Violence Court, shelters, and for implementation of native justice initiatives.

Education and Training

Significant increases have been provided in the Education and Training budget. Funding support for schools, including the new School Finance Program, is up 6.8%. Grants to universities are up 3%. The introduction of $2.5 million of new training programs at the province's community colleges, and the additional resources provided for the Workforce 2000 Program, reflect a renewed focus on equipping students with skills more relevant to the marketplace.

Youth Employment

In the coming months, many young Manitobans will enter the job market for the first time. For a young person, getting a job, and getting needed experience, are challenging at the best of times. When prospects are limited, however, the challenge can be discouraging and daunting. In recognition of that fact, the Careerstart Program will be maintained. In addition, the province will complement its regular summer student employment

program with a new Partners with Youth program, to assist young Manitobans to create their own work opportunities—to earn, to learn, and to contribute their energy and new ideas to their communities. Projects under the Partners with Youth program will be co-sponsored by businesses, local governments, and non-profit organizations. Details of the new program will be announced in the near future by the Ministers of Family Services, Rural Development, Industry, Trade and Tourism and Culture, Heritage and Citizenship.

In summary, this Government believes these increases, totalling $204 million, for priority social programs are necessary and appropriate at this time. However, increases of this magnitude are simply not sustainable on a longer-term basis. Greater efficiencies will have to be found. Otherwise, the costs of these services will outstrip the ability of Manitoba taxpayers to finance them. The challenge in planning our Budget for 1993/94, is to reduce the cost of providing these services.

SUMMARY OF THE FISCAL PLAN

Economic conditions necessitated greater spending, especially in agriculture and social assistance. Reduced revenue growth made the task of maintaining Government services more difficult. This Budget provides increased Government support where it is most needed. This is accomplished within a responsible fiscal framework.

Last year I stated:

> The Government's fiscal plan continues our commitment to fiscal responsibility, despite the difficult circumstances of the Canadian recession. The lack of fiscal responsibility at both federal and provincial levels during, and especially after the last recession, resulted in an unprecedented legacy of debt and deficits and interest burdens which still plague governments in Canada. We cannot afford to repeat those mistakes.

We continue to believe we must be fiscally responsible.

Budgetary expenditure will be $5.45 billion. An overall 4% growth in budgetary expenditure is a responsible level, at this time, considering both need and our collective ability to pay.

Budgetary revenue will be $5.12 billion, after a $201 million draw on the Fiscal Stabilization Fund. Without the cash resources available in the Fiscal Stabilization Fund, revenue would be be quite modest and the budgetary deficit for 1992/93 would be at an unacceptable level.

The deficit will be held to $330 million.

Comparative Statement of Budgetary Revenue and Expenditure
1991/92 and 1992/93

1991/92 Budget	1991/92 Revised Projection		1992/93 Budget	Change from Budget	Change from Revised Projection
(Millions of Dollars)			(Millions of Dollars)	(Per Cent)	
5,241	5,275	Budgetary Expenditure	5,450	4.0	3.3
4,792	4,927	Budgetary Revenue	4,919	2.6	(0.2)
125	–	Fiscal Stabilization Transfer	201	60.8	n/a
4,917	4,927	Total Revenue	5,120	4.1	3.9
324	348	Deficit	330	1.9	(5.2)

Ratios computed using unrounded data.

The Government's borrowing plans total almost $2 billion, including borrowing for non-budgetary items including the capital programs of Crown Corporations at $452 million, refinancing of maturing debt at $908 million, the annual sinking fund allocation at $300 million and the budgetary deficit.

FISCAL STRATEGY FOR THE FUTURE

This Budget is designed to bring us through the recession without the massive growth in deficits and debt which occurred in Manitoba in the early 1980s, and in some provincial jurisdictions during the current recession. For the medium- to longer-term, we must resume progress toward a balanced budget.

This will not be an easy task. It is made more difficult by the burden of interest on past debt, federal offloading and unilateral federal decisions on transfers.

In 1980/81, interest on the Province's general purpose debt totalled $79 million. Today, interest costs are $521 million. In 1980/81 public debt costs consumed 1½ points of Manitoba's sales tax. Today, fully 6 points of Manitoba's sales tax are required to finance past deficits.

Federal offloading has added to Provincial expenditure, making spending control more difficult. The Province is absorbing more than $100 million annually in offloaded costs in agriculture under GRIP and

NISA, in RCMP cost-sharing, unemployment insurance and other areas. Unilateral changes to federal financing for health and higher education since 1981 have impacted payments to Manitoba by $250 million annually. As well, the Province has to live with the federal freeze on per capita transfers for health and higher education until 1994/95, and re-imposition of a ceiling on equalization for 1993/94.

Imagine the flexibility we would have if we did not have to spend most of the sales tax Manitobans pay just to carry the interest on past debt. Imagine the flexibility which would come with $250 million more annually in federal transfers and $100 million less in offloading.

But wishing cannot make it happen. No matter how much we might wish, the reality is that federal support will continue to be constrained, and we will have to continue paying interest on our inherited debt.

Manitobans do not want and cannot afford higher taxes. They want to protect vital public services. Deficits are not the answer. They add to future costs, squeezing out services and adding to tax burdens.

A return to stronger economic growth, low inflation and lower interest rates will help. But, the problems of debt and deficits will not be solved through economic growth alone.

As the economy recovers, the real test of our Administration will be how vigilantly we control spending, not only for internal operations but also in Provincial Crown Corporations and agencies.

For 1993/94, current forecasts suggest revenue growth of under 2%. To hold the deficit at this year's level requires that overall growth in spending be limited to 1¼%.

Multi-Year Fiscal Targets
1992/93 through 1994/95

Millions of Dollars or
Per Cent Change if noted

1992/93 Levels		1993/94	1994/95
5,120	Total Revenue Increase	1.9%*	5.5%
330	Deficit Target	320	140
5,450	Total Expenditure Increase Target	1.5%	2.0%
Assumptions			
2.0%	Inflation	2.0%	2.0%
3.0%	Real Output (Canada)	4.0%	3.5%

* Revenue growth excluding Fiscal Stabilization Fund is 6.0%

Over the longer-term, revenue tends to grow with economic growth, likely in the 5½% range. In these circumstances, spending growth must be held to approximately 2% annually in order to reduce the deficit.

There are major rewards in following this course. The most important public programs can be maintained. Tax competitiveness can be assured. Investment and job opportunities can be realized. And, we can move ahead toward a balanced budget and debt reduction.

This will demand a discipline which has not been widely practised in recent times. Again, expenditure growth must be held significantly below revenue growth. Otherwise, the deficit will rise inexorably. We must not allow this to happen.

As I said earlier, Manitobans demand that their governments live within their means and provide services that taxpayers can afford. That requires balancing the budget and stopping the growth in debt. Success in achieving our fiscal targets will help assure Manitoba's economic prosperity and, therefore, its social progress.

I am proud of the good start we have made. I am convinced Manitoba is ready for economic recovery. Manitobans are working together toward that recovery, and our Government will continue to work with them every step of the way.

Budget Paper A

THE ECONOMY

THE ECONOMY

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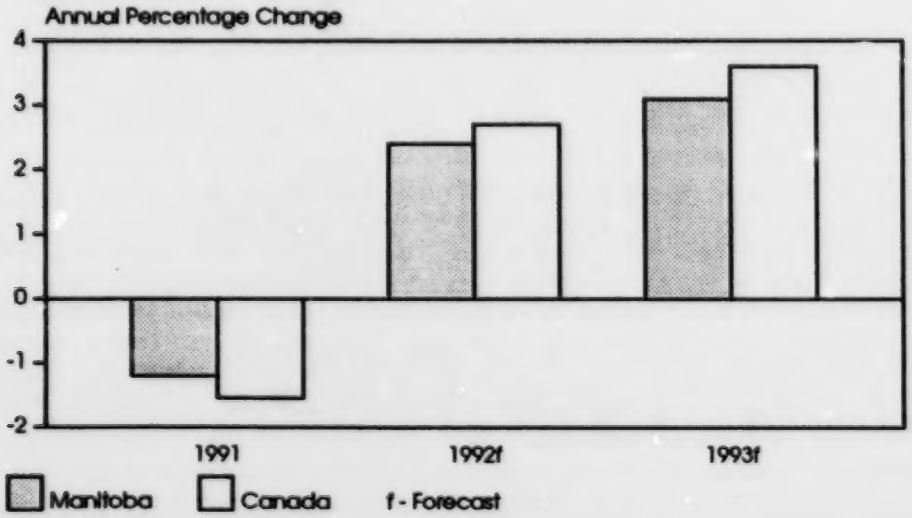
Canada's Economic Performance

In 1990, the Canadian economy fell into recession. From the second quarter of 1990 through the first quarter of 1991, real output of goods and services declined by 3.1%. This was less severe than the 5.3% decline recorded in 1981/82, but severe enough to cause real hardship for many.

In early 1991, most economic observers were expecting a recovery to begin in the second or third quarter, although several risks were recognized. One was that tight monetary policy, associated with the Bank of Canada's fight against inflation, would restrain the recovery; another was the threat of recession in the United States. In fact, there was strong growth in the second quarter: real Gross Domestic Product expanded at an annual rate of 5.5%, led by consumer purchases of big-ticket items in response to a significant decline in interest rates. However, the recovery came to a halt in the third quarter, with real growth at an annual rate of only 0.4%. Fourth quarter real GDP fell 0.8% at an annual rate.

The problem was that both of the threats to recovery—continuing restrictive monetary policy and recession in the United States—were realized. Indeed, it was not just the U.S. but also the United Kingdom, Australia, New Zealand, Finland, Sweden and Switzerland which were in recession in 1991, and both Germany and Japan weakened significantly in the second half of the year. One result of this widespread slowdown was that world commodity prices fell. Prices fell even further in Canadian dollar terms as the exchange rate rose to a peak of 89¢ in October 1991. The Canadian dollar prices received by Canadian producers for such products as wheat, pulp and paper, and base metals reached their lowest levels in several years. Since

Real Gross Domestic Product Growth, Manitoba and Canada



Source: 1991 Canada, Statistics Canada
1991 Manitoba, 1992 Manitoba and Canada, average of seven private sector forecasters
1993 average of five private sector forecasters

exports of natural resources and processed resource products account for more than a tenth of Canada's Gross Domestic Product, the poor showing in these sectors had a strong negative effect on the whole economy.

Monetary policy appeared to be easing during 1991, but monetary conditions remained quite restrictive. Nominal interest rates by year-end were well off their peak levels (for example, the one-year mortgage rate fell from 14.25% in July 1990, to 8.50% at the end of 1991). However, the inflation rate was also much lower, so real interest rates remained high. Furthermore, roughly a third of the potential economic stimulus resulting from lower interest rates was offset by the rising exchange rate. The spread between U.S. and Canadian rates also remained high since declines in Canadian rates were matched by declines in U.S. rates; by one measure (90-day commercial paper) the spread fell from 3.19 percentage points at the end of 1990 to a low of 2.65 percentage points in June 1991, but rebounded to 3.35 percentage points by the end of 1991—somewhat higher than a year before. For these reasons, the decline in nominal interest rates was not as stimulative to the economy as might have been hoped.

With Canada's trading partners in recession, commodity prices falling, and monetary policy remaining quite restrictive, the Canadian economy performed well below potential in 1991.

The good news about 1991 is that the inflation rate fell sharply. In January, the inflation rate was 6.8%, but in five of the next eleven months, the Consumer Price Index either declined or remained unchanged from the preceding month. By January 1992, the annual inflation rate was 1.6%—the lowest it has been in 20 years. The Bank of Canada will want to see the inflation rate sustained at less than 2% for half a year or so, before it is confident that inflation has been beaten; but it is clear that the Bank is well ahead of the target schedule for reducing inflation which was announced in February 1991. According to that schedule, inflation was to be reduced to 3% by the end of 1992, and 2% by the end of 1995.

For 1992, most observers expect renewed but modest growth. A group of seven private sector forecasters expects real GDP growth in 1992 of 2.7%, on average. The range of forecasts is between 1.5% and 3.8%. There are a number of encouraging signs that growth rates will pick up. Commodity prices seem to have bottomed out and some have begun to rise. Notably, the price of wheat has risen roughly 50% since June 1991. The Canadian dollar has fallen closer to a sustainable level, which should boost exports. There are signs that business profits are starting to pick up.

In the last few years, Canada has signed the Canada-U.S. Free Trade Agreement, initiated major tax reform (including introduction of the GST) and reduced regulation in a number of industries. Each of these changes was introduced with the objective of making the Canadian economy more efficient and competitive, but each entailed significant short-run adjustment costs. Adjustment was complicated by the aggressive fight against inflation, which drove both interest rates and the Canadian dollar to high levels. For many firms and for many individual Canadians, the process has been wrenching and has caused considerable hardship. But we should now start to see some of the benefits of those reforms, aided by an economic climate of price stability, lower interest rates, and a dollar that is more in line with the fundamentals.

Manitoba's Economic Performance

While the national recession began in the second quarter of 1990, it did not take hold in Manitoba until the fourth quarter. However, the delay seems merely to have made the inevitable onset of recession in this province that much more sudden and sharp. Between December 1990 and March 1991, several economic indicators fell abruptly, including retail sales and manufacturing shipments. Total employment in Manitoba was up by 0.2% on a year-over-year basis in December, but down by 3.0% in March. The worst month for urban housing starts was April, and for building permits, May. The months March through May, then, were the trough of the recession in Manitoba, but the improvement since that point has been slow.

The agriculture sector was hurt in 1991 by low grain prices. For the 1991/92 crop year, the average wheat price received for all grades of wheat is expected to be the lowest in 19 years. However, spot prices have risen sharply in recent months and, if sustained, these higher prices will eventually feed through to farmers. Some observers believe that the outlook for the grains and oilseeds sector is better now than it has been for years, due to tighter supply conditions; in 1991/92, world wheat production was down 8% from 1990/91, and year-end stocks were down 9%. Farmers are also benefiting from lower interest costs.

The livestock (cattle and hogs) and supply-managed (poultry, eggs and dairy) sectors have fared better, assisted in part by low feed grain prices. However, cattle and hog prices fell late in the year.

The construction industry experienced a 41% decline in housing starts in 1991 and a 25% decline in the value of building permits. After several years of low housing starts, there may be some pent-up demand, and low interest rates have made homes more affordable. Therefore, most forecasters expect a significant increase in house construction in 1992, and continued increases for several years thereafter.

The situation in the manufacturing sector is somewhat unclear. According to Statistics Canada's data, Manitoba's 1991 manufacturing shipments declined by 12.8% from 1990, well below the 5.9% decline for the Canadian manufacturing sector as a whole. However, Statistics Canada also reports that Manitoba's manufacturing employment increased by 1.4% in 1991—the best performance of any province. As well, there were very few plant closings in 1991, and industry analysts suggest that while the sector has definitely been in recession, things are better than the shipments data imply. In any event, the manufacturing sector appears to be well positioned to take full advantage of an upturn in the economy: few firms have gone out of business, a skilled workforce is largely intact, and the sector should be more efficient and competitive as a result of substantial investments in machinery and equipment in recent years.

Among the service industries, the retail sector attracted the most attention during the year. The recession cut into retail purchases, and part of the money that was spent found its way to shopping malls south of the border. A number of national retail chains announced store closings. Other service sectors also did less business: fewer people travelled; fewer goods were transported; fewer homes and insurance policies were sold. Total employment in Manitoba's commercial service industries declined by 6.8% in 1991.

While 1991 was a difficult year, there was good news as well. The list of 1991 investment announcements is long and impressive. The following are some examples:

- Western Glove Works will create 167 jobs by establishing a second Winnipeg core area factory for denim and cotton casual wear;
- United Parcel Service will establish Winnipeg as the hub for all its cross-border freight destined for Western Canada. Some 500 jobs will be created by 1996;
- Boeing of Canada will invest $60 million at its existing plant after receiving a contract to design and produce parts for the Boeing 777;
- Apotex Fermentation plans to build a pilot pharmaceutical plant for $17 million, and within two years the company will commence construction of a full-scale production facility for $30 million;
- Bristol Aerospace is investing almost $20 million to improve its capability to repair and overhaul F-5 aircraft, of which 1,800 are in operation worldwide;
- Canadair was awarded a $165 million, five-year National Defence contract to manage flight training at Southport Aerospace Inc. in Portage la Prairie, which will create 128 jobs;
- in addition, Versatile Farm Equipment announced in February 1992 that it will invest $10.8 million to move production of two-wheel drive tractors, currently built in Belgium by the parent company, Ford-New Holland, to Winnipeg.

These investments will help position Manitoba to take full advantage of a national and international recovery.

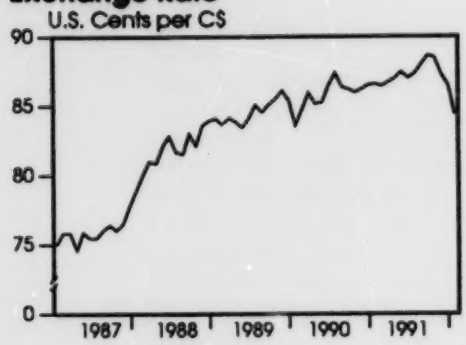
Manitoba Outlook at a Glance

	1991	1992	1993
	(Percentage Change Except as Noted)		
Gross Domestic Product (market prices)			
Nominal	1.5	6.2	5.7
Real	-1.2	2.4	3.1
Employment	-2.3	1.1	1.6
Unemployment Rate (%)	8.8	8.7	8.2

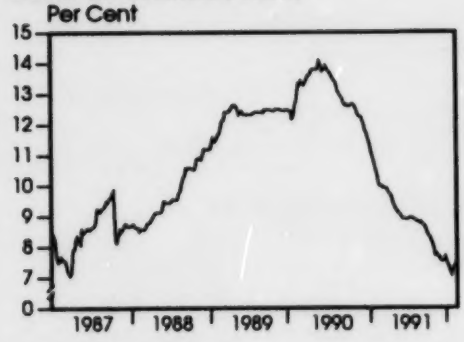
Source: 1991, Statistics Canada and Manitoba Bureau of Statistics, except GDP, average of 7 private sector forecasters; 1992, average of 7 private sector forecasters; 1993, average of 4 private sector forecasters

Canadian Exchange Rates, Interest Rates and Trade

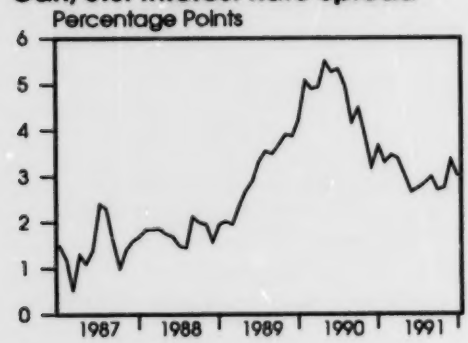
Exchange Rate



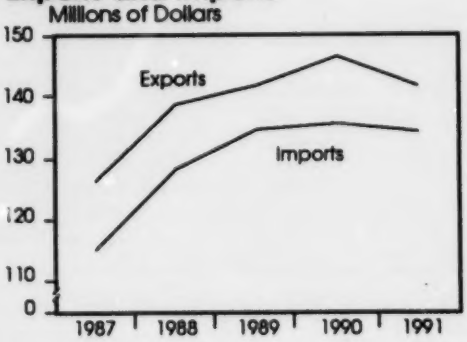
Bank of Canada Rate



Can/U.S. Interest Rate Spread



Exports and Imports



- In 1986, the Canadian dollar averaged about 72 cents U.S. It rose more or less steadily over the following years, peaking at just over 89 cents in late 1991—an increase of over 23%. Since peaking, it has fallen to the low 84 cents range.

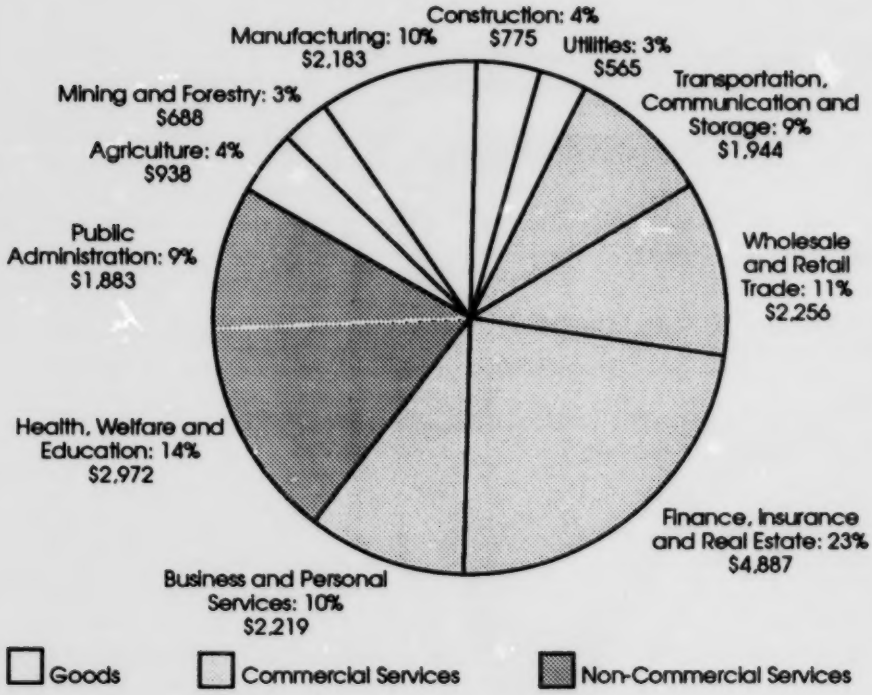
- After reaching a peak of 14.05% in May 1990, the Bank of Canada Rate began to fall. It reached a low of 7.08% on January 23, 1992, which, except for one week in March 1987, was the lowest rate since 1973. In the ensuing four weeks, the Bank Rate rose almost half a percentage point, as the Bank of Canada tried to moderate declines in the Canadian dollar.

- The spread between Canadian and U.S. interest rates (as measured by the adjusted yields on 90-day commercial paper) fell from a peak of about 5.5 percentage points in mid-1990, to a low of 2.6 percentage points in June 1991. Thereafter, continuing rate declines in Canada were more than offset by declines in U.S. rates, and the spread rose to over three percentage points at the end of 1991.

- In 1990, the recession in Canada caused imports to grow very little, while exports grew faster than in 1989. Consequently, the merchandise trade surplus increased by 54%. In 1991, the spread of recession in other countries, and falling export prices, led to a 3.3% decline in exports, while imports fell by 0.9%. The merchandise trade surplus fell by 32%.

Gross Domestic Product at Factor Cost, by Industry, 1991

Millions of Dollars and Per Cent of Total



Note: Totals may not add due to rounding.

Source: Manitoba Bureau of Statistics

- In 1991, Gross Domestic Product at factor cost (the sum of all incomes earned by factors of production) decreased by 0.6% to $21.3 billion.
- Goods production accounted for 24% of Manitoba's GDP at factor cost. Manufacturing was the largest of the goods-producing sectors, with a little more than 10% of GDP. Agriculture was second with over 4%. Mining and forestry together accounted for a little more than 3%, as did construction. Utilities produced just under 3%.
- Commercial services accounted for 53% of GDP, with finance, insurance and real estate comprising the largest share at 23%. Wholesale and retail trade was second with just under 11%, followed by business and commercial services with just over 10%. Transportation, communication and storage accounted for about 9%.
- Health, welfare and education contributed 14% of GDP, with public administration accounting for just under 9%.

Manitoba's Major Foreign Exports, 1991

	$ Millions	Per Cent
Cereal Grains	777.4	22.1
Nickel*	531.5	15.1
Motor Vehicles and Parts	183.5	5.2
Live Animals	179.0	5.1
Oilseeds	158.4	4.5
Aircraft Components	122.8	3.5
Computer Equipment	117.4	3.3
Electrical Equipment	108.4	3.1
Paper Products	96.5	2.7
Fats and Oils	76.9	2.2
Wood Products	65.8	1.9
Electricity	57.3	1.6
Vegetables	49.8	1.4
Fish	46.8	1.3
Plastic Products	43.0	1.2
Top Commodity Groups	2,614.6	74.3
Total 1991 Exports	3,520.3	100.0

* Most of Manitoba's nickel is exported via Ontario so exact quantities and destinations are unknown. Manitoba's foreign nickel exports are estimated at 90% of total production.

Manitoba's Top Ten Foreign Export Destinations, 1991

Millions of Dollars

	Agricultural Products	Non-Agricultural Products	Total	Per Cent of Subtotal
United States	261.9	1,584.3	1,846.2	60.4
USSR	225.2	0.2	225.4	7.4
Japan	150.9	52.3	203.2	6.7
China	184.8	1.7	186.4	6.1
Belgium	29.3	52.3	81.6	2.7
United Kingdom	13.9	32.5	46.3	1.5
Iran	35.6	0.8	36.4	1.2
Brazil	30.6	5.5	36.1	1.2
Korea, South	24.9	10.9	35.8	1.2
Taiwan	5.0	30.2	35.2	1.2
Venezuela	18.8	2.2	21.0	0.7
Other Countries	188.4	113.4	301.8	9.9
Subtotal	1,169.3	1,886.1	3,055.4	100.0
[Nickel*]		464.8	464.8	
Total 1991 Exports	1,169.3	2,351.0	3,520.3	

* For which destination information is unavailable.

Note: Totals may not add due to rounding.

Source: Manitoba Bureau of Statistics

Population and Labour Market

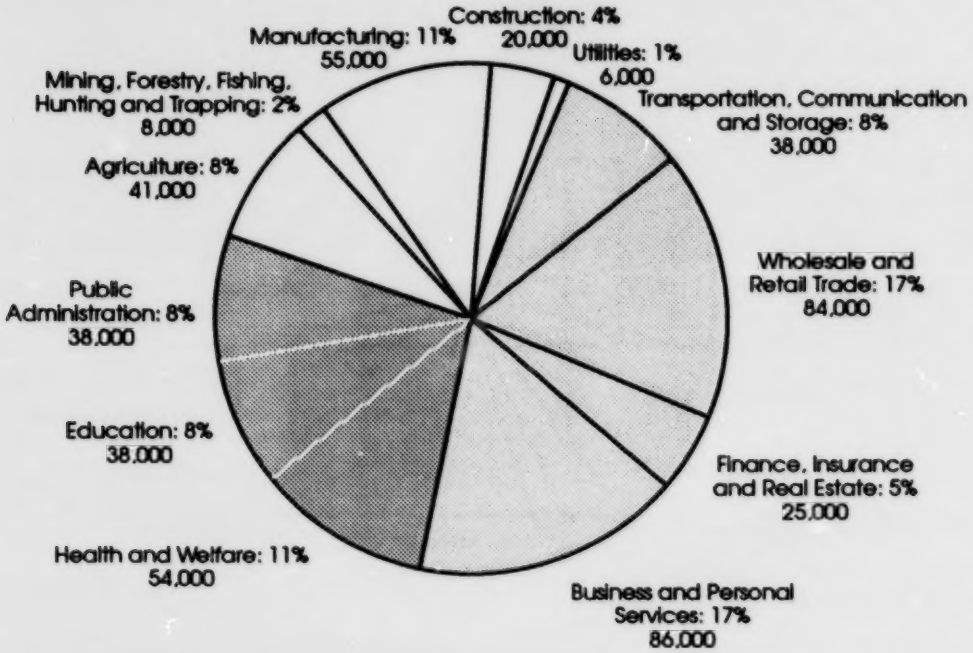
	1987	1988	1989	1990	1991
	(Thousands of Persons)				
Population (June 1)	1,079	1,084	1,086	1,092	1,096
Working Age Population	799	803	803	806	810
Labour Force	531	535	538	544	541
Employment	492	494	498	505	494
Unemployed	39	42	41	39	48
	(Per Cent)				
Participation Rate	66.5	66.7	67.0	67.6	66.9
Unemployment Rate	7.4	7.8	7.5	7.2	8.8

Source: Statistics Canada

- Manitoba's population was estimated at 1,096,200 in June 1991, an increase of 4,600 from June 1990.
- According to preliminary estimates, there were 17,500 births and 9,000 deaths in 1991, for a net natural population increase of 8,500.
- In 1991, net interprovincial out-migration from Manitoba was down 1,079 to 7,757. Only British Columbia, Alberta and Nova Scotia experienced net in-migration from other provinces.
- Net international immigration to Manitoba in 1991 was down 1,257 to 3,600.
- Employment in 1991 averaged 494,000 in Manitoba, down 2.2%. The unemployment rate averaged 8.8%, up 1.6 percentage points from last year, but still third lowest among provinces.

Employment by Industry, 1991

Number of Employed and Per Cent of Total



Total Employment: 494,000

Goods | Commercial Services | Non-Commercial Services

Note: Totals may not add due to rounding.

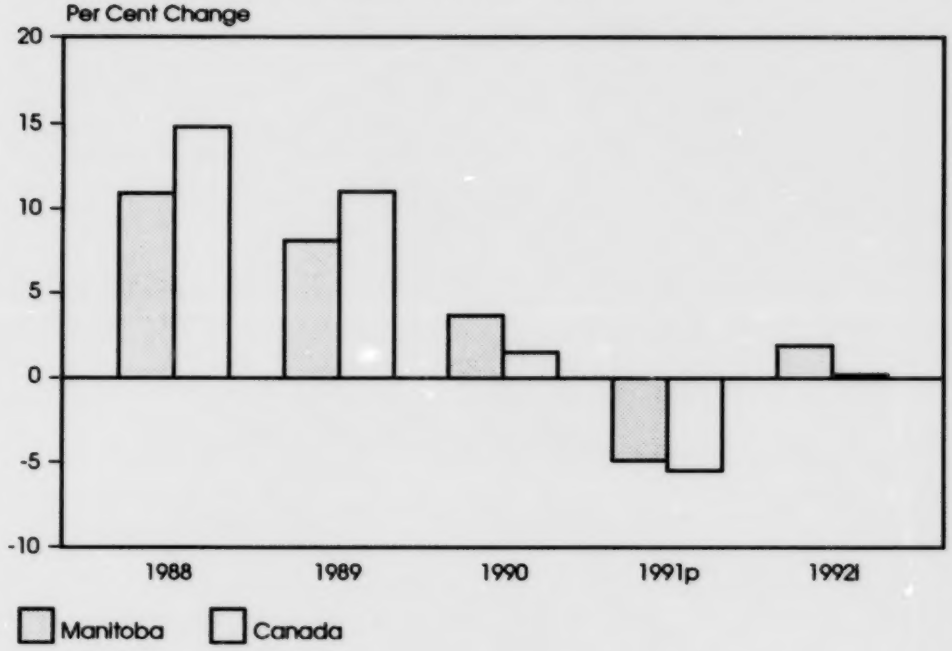
Source: Statistics Canada

- Goods-producing industries account for about 26% of total employment in Manitoba. Commercial services account for 47%, while health and welfare, education and public administration account for 27%.

- In 1991, employment increased in education, agriculture and public administration, each up 2,000; and in manufacturing and health and welfare, each up 1,000. Employment in mining and other primary industries and utilities was unchanged. Declines occurred in business and personal services, down 6,000; wholesale and retail trade, down 5,000; and finance, insurance and real estate, down 4,000. Smaller declines occurred in construction and transportation, communication and storage.

- Overall, commercial services employment declined by 6.8%; employment in the goods-producing sector was unchanged; and non-commercial services employment grew by 4.0%.

Non-Residential Capital Investment, Manitoba and Canada, 1988 to 1992



p-Preliminary i-Intentions

Source: Statistics Canada

- Total capital investment in Manitoba declined 7.3% in 1991, according to Statistic Canada's Private and Public Investment Survey of February 1992, while investment in Canada declined 7.0%. In 1992, Manitoba investment is forecast to grow by 2.4%, while Canadian investment will increase 3.6%.

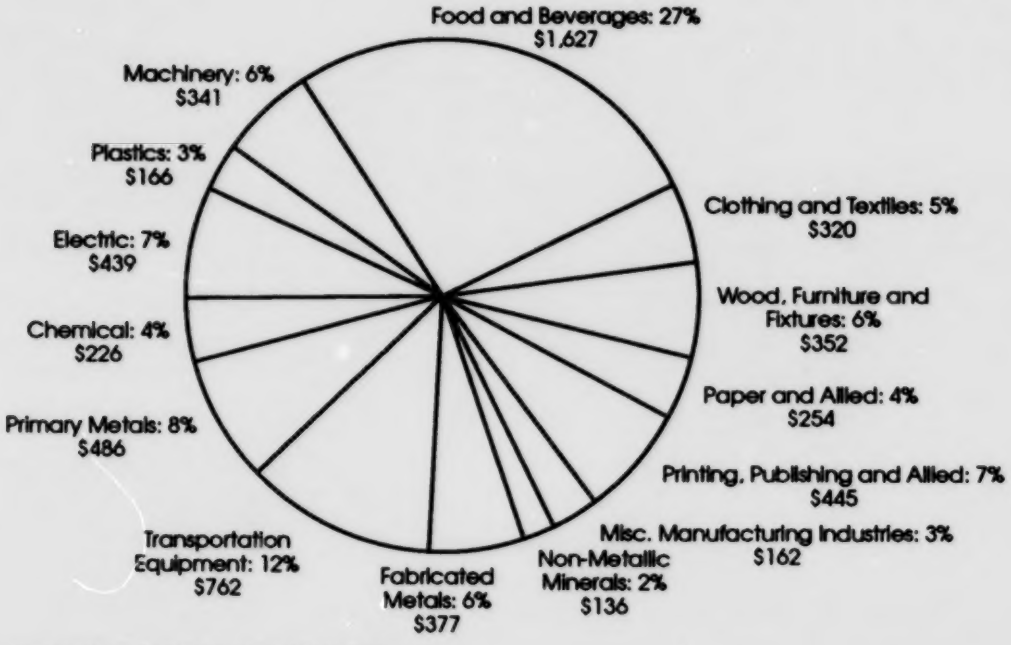
- Non-residential investment in Manitoba was down 4.9% in 1991, slightly better than the 5.5% decline in Canada. In 1992, non-residential investment is projected to increase by 1.9%, while increasing only 0.2% in the country as a whole.

- Manitoba's growth in 1992 non-residential investment is lead by a 31.2% increase in the manufacturing sector. Alberta is the only other province with a forecast increase. Other non-residential sectors with projected improvements in 1992 are government departments (10.6%); trade, finance and commercial services (6.8%); primary industries and construction (3.4%); and institutions (1.5%).

- Housing investment will increase 4.3% in 1992, the first increase in three years.

Manufacturing Shipments, 1991

Millions of Dollars and Per Cent of Total



Total Value of Shipments: $6,093 million

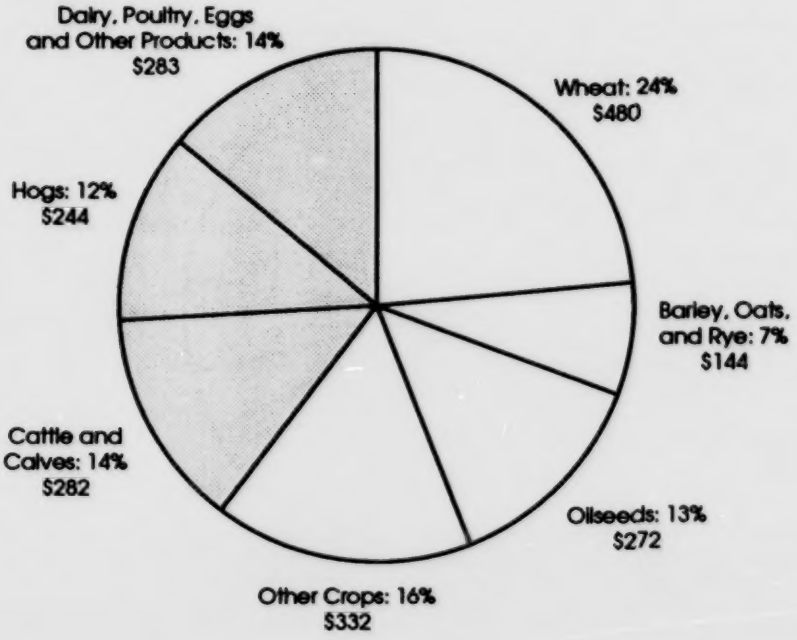
Note: Totals may not add due to rounding.

Source: Statistics Canada

- The value of Manitoba manufacturing shipments decreased by 12.8% in 1991. Nationally, the decline was 5.9%.
- The machinery sector, with a significant farm equipment component, was the hardest hit, declining 37.3% from 1990. The food and beverages sector declined by 9.2%. The decline in these two sectors represents over 40% of Manitoba's decrease. The only increase in manufacturing occurred in the printing and publishing sector, where shipments rose 1.8%. However, there were some signs of recovery late in the year. In November and December, electrical equipment, primary metals and "other manufacturing" all recorded significant year-over-year increases. Total shipments in December were down only 2.1% from the previous December, identical to the national average.
- Manufacturing employment in 1991 increased 1.4%—the best performance of any province. The discrepancy between declining shipments and rising employment seems to be due, at least in part, to some manufacturing firms adopting reduced work-weeks to avoid lay-offs. There are also some technical reasons to think that the data may have overstated the decline in shipments.

Agricultural Production, 1991

Millions of Dollars and Per Cent of Total


Dairy, Poultry, Eggs and Other Products: 14% $283
Wheat: 24% $480
Hogs: 12% $244
Barley, Oats, and Rye: 7% $144
Cattle and Calves: 14% $282
Oilseeds: 13% $272
Other Crops: 16% $332
Crops
Livestock and Other

Note: Oilseeds include canola, flax and sunflower.
Other Crops include hay, $164 million, and potatoes, $32 million.

Note: Totals may not add due to rounding.

Source: Manitoba Department of Agriculture

- The estimated total value of agricultural production declined 12% to $2.0 billion in 1991. The value of crop production declined 15% to $1.2 billion, while livestock production was down 7% to $775 million.

- The estimated value of oilseed production increased 10%, while tame hay was up 15%. Grain production values declined in the face of lower world prices, with wheat down 25%, and barley, oats and rye down 34%. Production volumes of all major grains and oilseeds were down, except for canola (up 65%) and sunflowers (up 22%).

- Price declines in cattle, hogs and poultry resulted in lower production values. The estimated value of cattle production declined 15%, while the value of poultry declined 4%, and hogs declined 1%. Dairy prices increased 3%, offsetting a 2% decline in production volumes and resulting in a 1% increase in the value of production.

Farm Income, 1987 to 1992

	1987	1988	1989	1990	1991p	1992f
	(Millions of Dollars)					
Cash receipts						
Crops	806	865	892	1,029	1,007	790
Livestock	808	762	758	774	758	729
Government Payments	478	432	450	169	219	597
Total Cash Receipts	**2,092**	**2,059**	**2,100**	**1,972**	**1,984**	**2,116**
Less: Operating Expenses	1,388	1,435	1,524	1,522	1,486	1,518
Net Cash Income	**704**	**624**	**576**	**451**	**499**	**597**
Income-in-Kind	14	14	14	14	14	14
Less: Depreciation	263	267	271	273	263	252
Realized Net Income	**455**	**371**	**319**	**192**	**250**	**359**
Inventory Change	(75)	(220)	146	327	52	(57)
Total Net Income	**380**	**150**	**465**	**519**	**303**	**303**

p - Preliminary f - Forecast

Note: Totals may not add due to rounding.

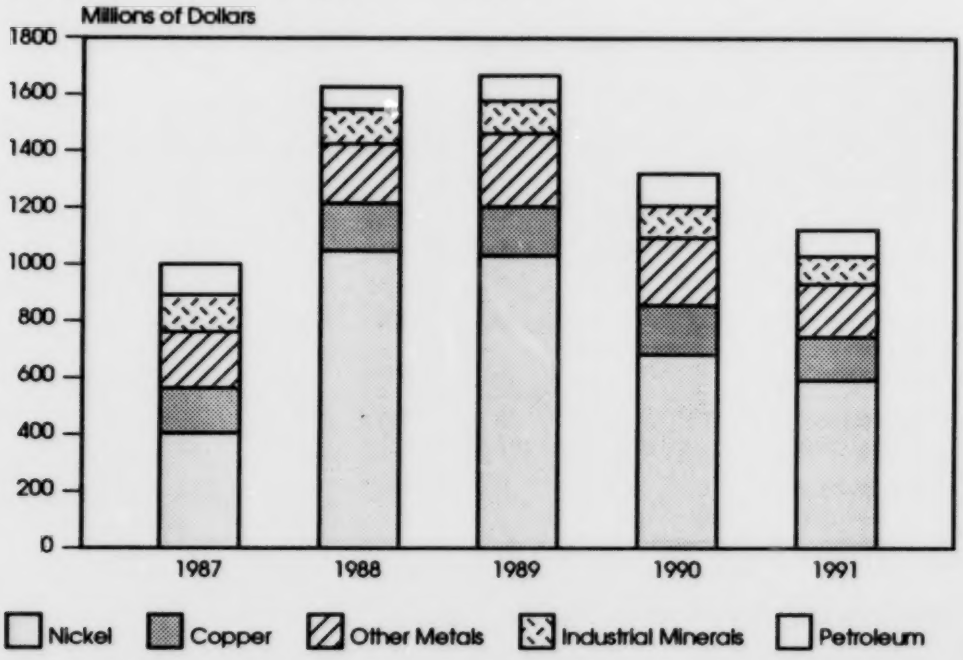
Source: Agriculture Canada

- In 1991, Manitoba's farm cash receipts increased marginally to $2.0 billion. Crop and livestock receipts are estimated to have declined by approximately 2% to $1.0 billion and $758 million, respectively. These declines were offset by a 30% increase in government payments.

- Preliminary estimates for 1991 indicate that lower receipts for barley, oats and flaxseed offset increased receipts for wheat and canola. Wheat and canola prices declined in 1991, but sales increased. Livestock receipts declined as increased sales of cattle and hogs were offset by price declines.

- Agriculture Canada's December farm income report estimates that in 1992, cash receipts will increase by 6% to 7%. Crop receipts are expected to decline by about 22% as a result of lower prices or volumes for wheat, barley and lentils, which will offset increases for oats, rye, canola, flaxseed and potatoes. Increases in dairy, poultry and egg receipts are expected to be offset by declines in cattle and hog receipts, resulting in a 4% decline in livestock receipts. Goverment payments are projected to increase by 170% to approximately $600 million.

Mineral Production, 1987 to 1991



Source: Statistics Canada

- In 1991, the total value of mineral production decreased by 15% to $1.1 billion from $1.3 billion in 1990. A majority of this decline was the result of declining world metal prices.
- Nickel production declined 6.1% to 62,135 tonnes in 1991 and, as a result of an 8% price decline, the value of production fell 13.4% to $590 million.
- The price of copper and zinc fell by 12.4% and 26.1% respectively. In 1991, copper production increased by 2.7%, but in value terms it declined 11.5% to $155 million. Zinc production increased by 1.4%, but the value of production declined 34.1% to $98 million.
- Petroleum production declined 3.5%, and since prices fell as well, the value of production declined by 19.8% to $93 million. The value of industrial minerals declined by 10.7% to $99 million; gold declined 13.6% to $33 million; and platinum group metals declined 6.0% to $17 million.
- Slower global economic growth, along with excess supply and an overcapacity in production, has forced mineral prices down. The minerals markets will begin to recover with a rebound in housing starts and a recovery in the auto sector.

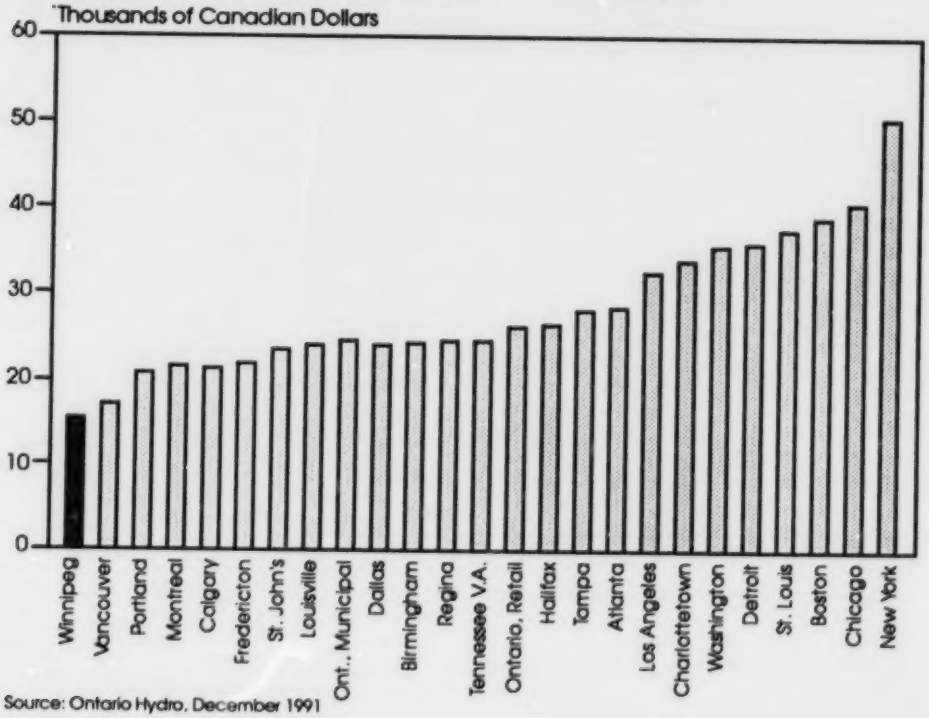
Cost of Owning a House, Selected Major Cities, July - December 1991

	Average Starter House Price	Property Taxes	Annual Heating	Monthly Carrying Cost
Regina	$ 61,450	$ 1,715	$ 642	$ 684
Winnipeg	**67,590**	**2,337**	**824**	**800**
Quebec	72,350	1,952	1,295	845
Halifax	82,290	1,524	1,027	866
Montreal	93,650	2,272	1,177	1,031
Edmonton	93,950	1,914	546	951
Calgary	109,670	1,965	621	1,087
Ottawa	121,990	2,869	685	1,265
Hamilton	127,130	2,109	685	1,243
Victoria	134,110	2,013	963	1,313
Vancouver	143,930	1,962	449	1,344
Toronto	170,260	2,330	631	1,599

Source: Canada Mortgage and Housing, January 1992

- According to information published by Canada Mortgage and Housing, Winnipeg has the second lowest starter house prices among the twelve major cities shown above.
- In Winnipeg, property taxes and heating costs are above average for the group. However, the monthly carrying cost, which includes mortgage payments, property taxes and heating, is second lowest.
- A family in Winnipeg requires an income of $30,010 in order to be able to carry the mortgage on the average starter house. The income required in Calgary is $40,750, in Vancouver, $50,410, and in Toronto, $59,970.
- In Winnipeg, 43.6% of renters can afford to buy a home. The proportion in Calgary is 34.3%, in Toronto, 24.4%, and in Vancouver, 22.0%.
- Declining interest rates and stable prices have improved the affordability of houses across the country.

Electricity Cost Comparison
Monthly Industrial Electric Bills, 400,000 kW.h



Source: Ontario Hydro, December 1991

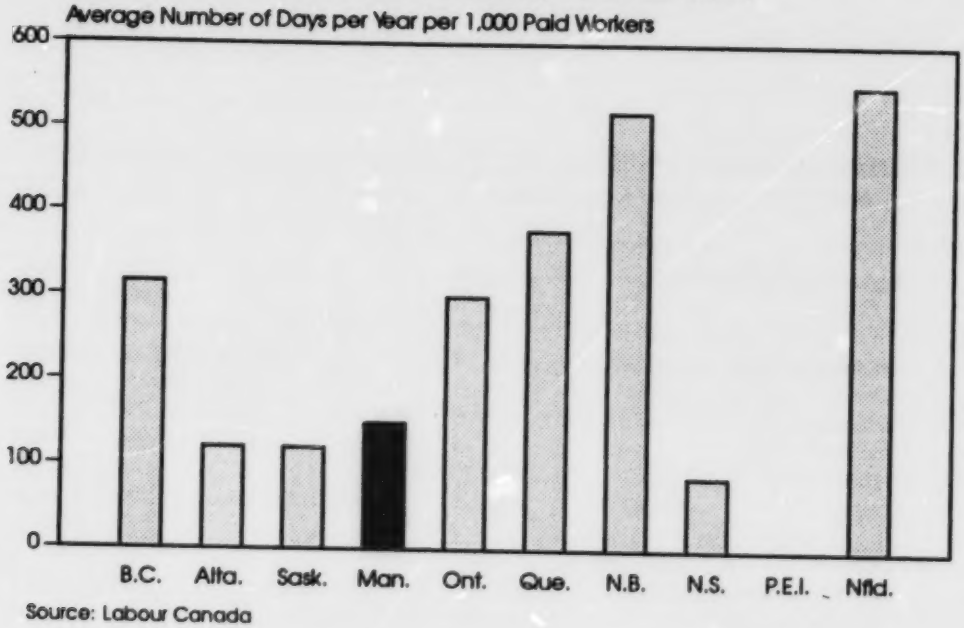
Office Space and Industrial Rents, Selected Major Cities,1991

	Downtown Office Rents ($ per Square Foot) (Average Gross Rent)	Industrial Rental Rates ($ per Square Foot) (Average Gross Rent)
Montreal	43.25	6.00
Ottawa-Carlton	36.75	7.50
Toronto	52.60	5.25
Winnipeg	**23.00**	**6.00**
Regina	22.00	5.75
Calgary	21.20	6.00
Edmonton	20.00	5.40
Vancouver	36.50	9.50

Source: Royal LePage Market Survey, 1992

- Many of the costs of doing business are relatively low in Winnipeg. Downtown office rents and industrial land rents are competitive with rates in other cities, while electricity rates are among the lowest in North America.

Time Lost to Strikes and Lockouts, 1987 to 1991



Source: Labour Canada

- The labour-management relations record in Manitoba is one of the best in Canada. The average time lost due to strikes and lockouts over the years 1987 to 1991 was 150 days per thousand workers—lower than five other provinces.

- In 1991, the time lost due to strikes and lockouts in Manitoba was equal to 412 days per thousand workers employed. This was 5.4 times greater than the average of the previous five years. The sharp increase is attributable to a strike by nurses, which accounted for 80.5% of the person days lost in 1991.

MANITOBA ECONOMIC STATISTICS, 1987 to 1991

	1987	1988	1989	1990	1991
	(Millions of Dollars Except as Noted)				
GROSS DOMESTIC PRODUCT [1]	19,461	21,541	23,219	23,792	23,741
Real GDP	18,845	19,387	19,887	19,991	n.a.
SECTORS					
Agricultural Production [2]	1,920	1,914	2,086	2,306	2,038
Crops	1,150	1,122	1,336	1,440	1,229
Livestock	735	762	721	835	775
Manufacturing Shipments	6,229	6,686	7,221	6,987	6,093
Mineral Production	1,000	1,627	1,668	1,321	1,123
Electric Power Sales	608	631	696	737	708
Housing (Units)	8,174	5,455	4,084	3,297	1,950
Retail Trade [3]	5,870	6,071	6,322	6,319	6,164
Tourism	698	868	999	1,017	n.a.
INCOME					
Total Personal	17,407	18,632	19,782	21,052	21,274
Personal Disposable	14,403	15,311	16,383	17,032	17,104
Wages and Salaries	10,465	11,078	11,573	12,180	12,311
INVESTMENT					
Total	3,516	3,782	3,751	3,795	3,518
Non-Residential	2,417	2,680	2,897	3,003	2,858
Private	1,406	1,509	1,686	1,724	1,471
Public	1,011	1,170	1,211	1,279	1,386
Housing	1,099	1,102	854	792	660
POPULATION					
June (000's)	1,079	1,084	1,086	1,092	1,096
LABOUR MARKET					
Labour Force (000's)	531	535	538	544	541
Employment (000's)	492	494	498	505	494
Participation Rate (%)	66.5	66.7	67.0	67.6	66.9
Unemployment Rate (%)	7.4	7.8	7.5	7.2	8.8
CONSUMER PRICES					
(Index, 1986 = 100)	104.2	108.5	113.7	118.9	125.0

[1] At market prices.
[2] Includes crops, livestock and other.
[3] Data have been adjusted to remove the effect of the Federal Sales Tax which was replaced by the Goods and Services Tax on January 1, 1991. The GST is not included in retail sales data. The adjustment to pre-1991 data allows them to be compared with the 1991 and 1992 data.

p = preliminary 1991 data n.a. = not available

Source: Statistics Canada and Manitoba Bureau of Statistics

1987	1988	1989	1990	1991	
(Per Cent Change)					
5.7	10.7	7.8	2.5	-0.2	**GROSS DOMESTIC PRODUCT**
2.4	2.9	2.6	0.5	n.a.	Real GDP
					SECTORS
-7.3	-0.3	9.0	10.6	-11.6	Agricultural Production
-9.1	-2.4	19.0	7.8	-14.6	Crops
-5.0	3.7	-5.4	15.8	-7.3	Livestock
10.0	7.3	8.0	-3.2	-12.8	Manufacturing Shipments
30.9	62.6	2.6	-20.8	-15.0	Mineral Production
-1.0	3.8	10.4	5.8	-3.9	Electric Power Sales
6.2	-33.3	-25.1	-19.3	-40.9	Housing (Units)
6.1	3.4	4.1	0.0	-2.5	Retail Trade
4.6	24.4	15.0	1.8	n.a.	Tourism
					INCOME
6.8	7.0	6.2	6.4	1.1	Total Personal
6.4	6.3	7.0	4.0	0.4	Personal Disposable
5.8	5.9	4.5	5.3	1.1	Wages and Salaries
					INVESTMENT
-1.9	7.6	-0.8	1.2	-7.3	Total
-6.5	10.9	8.1	3.7	-4.9	Non-Residential
-8.5	7.4	11.7	2.3	-14.7	Private
-3.5	15.7	3.5	5.6	8.4	Public
9.8	0.3	-22.5	-7.4	-16.6	Housing
					POPULATION
0.7	0.5	0.2	0.5	0.4	June (000's)
					LABOUR MARKET
1.0	0.8	0.6	1.1	-0.6	Labour Force (000's)
1.2	0.4	0.8	1.4	-2.2	Employment (000's)
-	-	-	-	-	Participation Rate (%)
-	-	-	-	-	Unemployment Rate (%)
					CONSUMER PRICES
4.2	4.1	4.8	4.6	5.1	(Index, 1986 = 100)

Note: Per cent changes are based on unrounded data.

Budget Paper B

FINANCIAL STATISTICS

FINANCIAL STATISTICS

FINANCIAL STATISTICS

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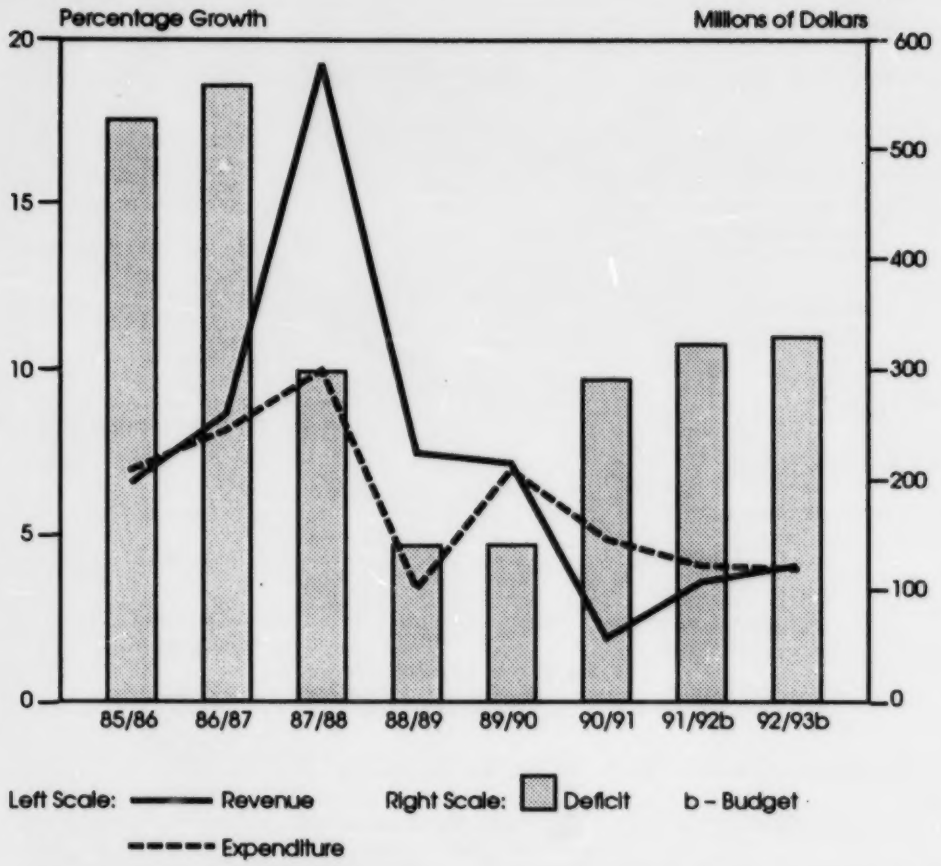
Summary of Revenue, Expenditure and Deficits

1985/86 to 1992/93



Comparative Statement of Budgetary Revenue and Expenditure

1991/92 and 1992/93

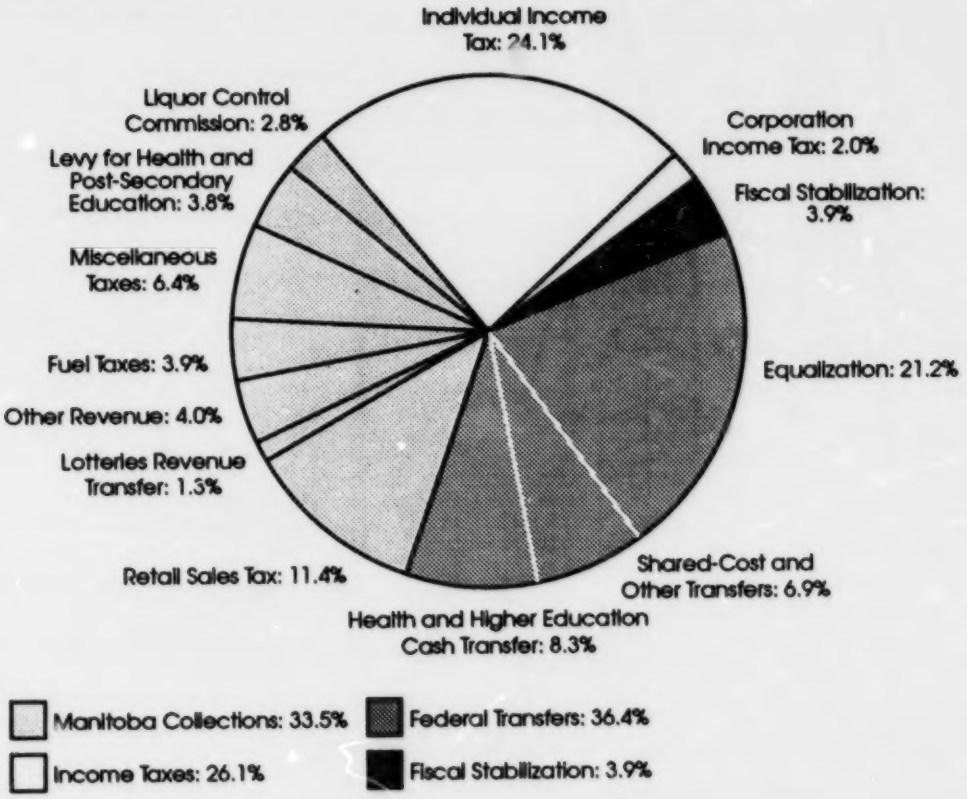
1991/92 Budget	1991/92 Revised Projection		1992/93 Budget	Change from Budget	Change from Revised Projection
(Millions of Dollars)			(Millions of Dollars)	(Per Cent)	
5,241	5,275	Budgetary Expenditure	5,450	4.0	3.3
4,792	4,927	Budgetary Revenue	4,919	2.6	(0.2)
125	–	Fiscal Stabilization Transfer	201	60.8	n/a
4,917	4,927	Total Revenue	5,120	4.1	3.9
324	348	Deficit	330	1.9	(5.2)

Ratios computed using unrounded data.

Provincial Revenue, 1992/93

Major Sources

Per Cent of Total



Revenue by Source

1991/92 and 1992/93

1991/92 Budget ($M)		1992/93 Budget ($M)	Change ($M)	Change (%)
1,777*	Manitoba Collections	1,717	(60)	(3.4)
1,302	Income Taxes	1,337	35	2.7
3,079	Total Own-Source Revenue	3,054	(25)	(0.8)
1,713	Federal Transfers	1,864	151	8.8
4,792	Budgetary Revenue	4,919	126	2.6

* Includes $20 million from Lottery Revenues.

Totals may not add due to rounding. Ratios computed using unrounded data.

Revenue Estimates

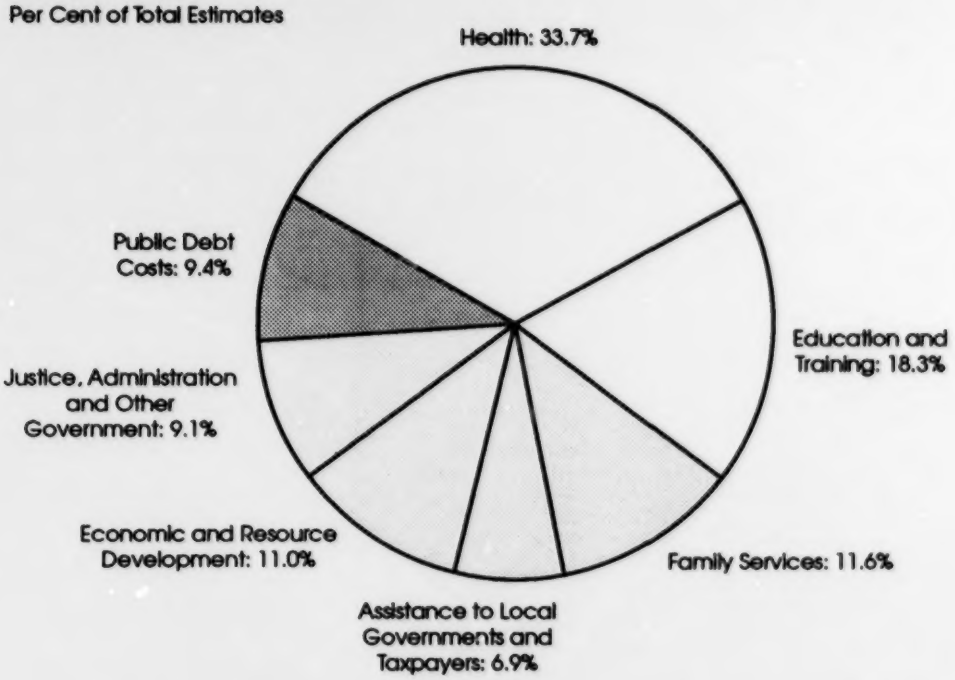
1991/92 Budget				1992/93 Estimate	% of Total Revenue
$1,756,821,800		**MANITOBA COLLECTIONS**		$1,717,338,800	33.5
		Taxes, Levies and Collections			
	$ 9,300,000	• Land Transfer Tax	$ 9,100,000		
	79,000,000	• Corporation Capital Tax	80,700,000		
	139,900,000	• Gasoline Tax	136,500,000		
	24,300,000	• Insurance Corporations Tax	25,000,000		
	190,000,000	• Levy for Health and Education	191,800,000		
	38,000,000	• Mining Tax	23,100,000		
	65,400,000	• Motive Fuel Tax	64,000,000		
	5,383,200	• Oil and Natural Gas Tax	5,146,400		
	610,000,000	• Retail Sales Tax	581,000,000		
	52,000,000	• Revenue Act, 1964, Part I	54,600,000		
	129,800,000	• Tobacco Tax	128,700,000		
	6,930,500	• Other Taxes	6,430,500		
	$1,350,013,700	Subtotal	$1,306,076,900		
		Fees and Other Revenue			
	$ 27,628,200	• Fines and Costs; Land Titles; and Other Legal	$ 26,387,900		
	4,439,800	• Minerals and Petroleum; and Other Energy and Mines	4,877,100		
	35,927,000	• Automobile and Motor Carrier Licences and Fees	38,877,000		
	10,439,000	• Drivers' Licences	10,852,000		
	41,549,900	• Water Resources	40,886,900		
	15,593,300	• Parks; Forestry; Fisheries; and Other Natural Resources	14,676,500		
	74,298,800	• All Other Manitoba Collections	67,577,400		
	$ 209,876,000	Subtotal	$ 204,134,800		
	$ 145,100,000	**Liquor Control Commission**	$ 141,100,000		
	$ 51,832,100	**Lotteries Funded Programs Transfer**	$ 66,027,100		
1,302,500,000		**INCOME TAXES**		1,337,300,000	26.1
	$ 91,400,000	• Corporation Income Tax	$ 103,300,000		
	1,211,100,000	• Individual Income Tax	1,234,000,000		
1,713,152,800		**FEDERAL TRANSFERS**		1,864,022,700	36.4
	$ 994,700,000	**Equalization**	$1,085,000,000		
	$ 395,000,000	**Health and Higher Education Cash Transfer**	$ 424,700,000		
		Shared-Cost and Other Transfers			
	$ 243,407,800	• Canada Assistance Plan	$ 279,336,300		
	80,045,000	• Other	74,986,400		
	$ 323,452,800	Subtotal	$ 354,322,700		
$ 4,772,474,600		**TOTAL REVENUE BEFORE STABILIZATION**		$4,918,661,500	96.1
$ 125,000,000		**Transfer from Fiscal Stabilization Fund**		$ 201,000,000	3.9
20,000,000		**Transfer from Lottery Revenues**		0	0
$4,917,474,600		**TOTAL REVENUE**		**$5,119,661,500**	**100.0**

Totals may not add due to rounding.

Provincial Expenditure, 1992/93

Major Categories

Per Cent of Total Estimates


Health: 33.7%
Education and Training: 18.3%
Family Services: 11.6%
Assistance to Local Governments and Taxpayers: 6.9%
Economic and Resource Development: 11.0%
Justice, Administration and Other Government: 9.1%
Public Debt Costs: 9.4%

Program Expenditure Estimates, 1992/93

Operating and Capital

	Operating Expenditure	Capital Expenditure	Total Program Expenditure
	(Millions of Dollars)		
Health	1,804	57	1,861
Education and Training	971	38	1,009
Family Services	640	—	640
Assistance to Local Governments and Taxpayers	347	34	382
Economic and Resource Development	480	124	604
Justice, Administration and Other Government	476	27	503
Minor Capital	(26)	26	0
Total	**4,693**	**306**	**4,999**

Totals may not add due to rounding.

Expenditure Estimates

1991/92 Budget			1992/93 Estimate	% of Total Expenditure
$1,759,522,200	**Health**		$1,860,688,400	33.7
956,944,100	**Education and Training**		1,009,379,500	18.3
589,214,100	**Family Services**		640,417,500	11.6
372,051,300	**Assistance to Local Governments and Taxpayers**		381,546,900	6.9
$ 66,136,300	• Rural Developmen	$ 70,604,500		
69,015,000	• Urban Affairs	69,942,400		
236,900,000	• Tax Credit Payments	241,000,000		
568,360,400	**Economic and Resource Development**		604,053,800	11.0
$ 112,381,800	• Agriculture	$135,720,100		
9,518,500	• Energy and Mines	15,484,000		
13,912,500	• Environment	15,477,200		
229,716,700	• Highways and Transportation	229,604,100		
47,946,900	• Housing	50,132,700		
42,382,100	• Industry, Trade and Tourism	43,874,100		
83,885,600	• Natural Resources	84,999,300		
17,397,300	• Northern Affairs	20,383,500		
3,948,000	• Canada-Manitoba Enabling Vote	5,807,800		
3,900,000	• Allowance for Losses (excl. MPI)	1,400,000		
1,371,000	• Environmental Innovations Fund	1,171,000		
2,000,000	• Employee Ownership Fund	0		
497,093,900	**Justice, Administration and Other Government**		503,404,500	9.1
$ 13,877,500	• Legislative Assembly	$ 14,299,900		
3,201,100	• Executive Council	3,288,800		
4,054,700	• Civil Service Commission	4,100,400		
80,385,300	• Employee Benefits	90,502,200		
5,134,800	• Community Support Programs	4,812,600		
11,156,400	• Consumer and Corporate Affairs	11,230,800		
55,161,600	• Culture, Heritage and Citizenship	58,027,600		
21,567,000	• Finance—Departmental Programs	22,275,100		
4,041,400	• Fitness and Sport	10,943,900		
87,573,700	• Government Services (excl. MPI)	82,201,300		
159,022,000	• Justice	165,875,700		
15,797,500	• Labour	16,681,400		
302,500	• Seniors Directorate	263,900		
818,400	• Status of Women	900,900		
0	• Aboriginal Justice Initiatives	1,000,000		
5,000,000	• Decentralization	2,000,000		
10,000,000	• Emergency Expenditures	10,000,000		
20,000,000	• Internal Reform (et al.)	5,000,000		
$4,743,186,000	**Total Program Expenditure**		**$4,999,490,600**	**90.6**
558,266,600	**Public Debt Costs**		520,666,600	9.4
$ 493,000,000	• Statutory	$455,200,000		
65,266,600	• Manitoba Properties Inc.	65,466,600		
$5,301,452,600	**Total Expenditure Estimates**		**$5,520,157,200**	**100.0**
(60,000,000)	**Less: Year-End Lapse**		(70,000,000)	
$5,241,452,600	**TOTAL BUDGETARY EXPENDITURE**		**$5,450,157,200**	

Incremental Capital Authority Requirements for Non-Budgetary Programs, 1992/93

The Loan Act, 1992

The Manitoba Hydro-Electric Board		$186,785,000
The Manitoba Telephone System		93,400,000
The Manitoba Agricultural Credit Corporation		42,737,000
Business Support		29,300,000
Manitoba Industrial Recruitment Initiative	$20,000,000	
Economic Innovation and Technology Council	5,000,000	
Crocus Investment Fund	2,000,000	
Industrial Opportunities Program	1,200,000	
Manufacturing Adaptation Program	1,100,000	
Communities Economic Development Fund		11,095,000
Fleet Vehicles Agency		4,600,000
Manitoba Hazardous Waste Management Corporation		3,600,000
The Manitoba Water Services Board		3,000,000
		$374,517,000

Schedule of Existing Capital Authority to Lapse, 1992/93

Manitoba Hydro-Electric Board - Limestone	$400,000,000
Federal-Provincial Water and Sewer Agreement	33,500,000
Manitoba Development Corporation	14,000,000
Canada-Manitoba Tourism Agreement 1985-1990	6,850,000
	$454,350,000

Non-Budgetary Capital Program, 1992/93

The Manitoba Hydro-Electric Board	$391,900,000
The Manitoba Telephone System	196,700,000
The Manitoba Housing and Renewal Corporation	61,494,600
The Manitoba Agricultural Credit Corporation	45,000,000
Hudson Bay Mining and Smelting Co. Limited, modernization project	36,208,300
Business Support	23,730,000
The Manitoba Farm Mediation Board	9,800,000
Communities Economic Development Fund	9,700,000
Rural Development Bonds Program	9,250,000
The Manitoba Water Services Board	8,454,800
Miscellaneous Corporations and Agencies	19,519,400
	$811,757,100

Province of Manitoba Statement of Valuation and Purpose of Direct and Guaranteed Debt Outstanding

(Thousands of Dollars)

As at December 31, 1991 (with comparative figures for March 31, 1991)

Canadian Dollar Equivalent at Date of Issue Dec. 31/91	Canadian Dollar Equivalent at Date of Issue March 31/91	Increase (Decrease) Dec. 31/91 over March 31/91		Canadian Dollar Valuation (Note 1) Dec. 31/91	Canadian Dollar Valuation (Note 1) March 31/91	Increase (Decrease) Dec. 31/91 over March 31/91
			Direct Debt Payable in:			
5,373,991	4,915,510	458,481	Canadian Dollars	5,373,991	4,915,510	458,481
			Foreign Issues Swapped			
1,774,283	1,787,493	(13,210)	to Canadian Dollars	1,781,456	1,803,833	(22,377)
3,954,634	3,438,918	515,716	U.S. Dollars	3,841,421	3,327,499	513,922
			Foreign Issues Swapped			
1,134,274	1,161,621	(27,347)	to U.S. Dollars	1,185,650	1,225,294	(39,644)
2,825	5,651	(2,826)	Swiss Francs	4,247	8,012	(3,765)
-	108,380	(108,380)	Japanese Yen	-	176,290	(176,290)
12,240,007	11,417,573	822,434	Total Direct Debt	12,186,765	11,456,438	730,327
			Guaranteed Debt Payable in:			
1,383,594	1,258,044	125,550	Canadian Dollars	1,383,594	1,258,044	125,550
			Foreign Issues Swapped			
-	54,280	(54,280)	to Canadian Dollars	-	59,816	(59,816)
688,552	688,552	-	U.S. Dollars	803,142	805,297	(2,155)
2,072,146	2,000,876	71,270	Total Guaranteed Debt	2,186,736	2,123,157	63,579
14,312,153	13,418,449	893,704	**Total Direct and Guaranteed Debt**	14,373,501	13,579,595	793,906
2,516,207	2,537,904	(21,697)	Less: Sinking Fund Investments	2,516,207	2,537,904	(21,697)
11,795,946	10,880,545	915,401	**Net Direct and Guaranteed Debt** (Note 2)	11,857,294	11,041,691	815,603

Note 1: The Canadian Dollar Valuation is calculated using the foreign currency exchange rates in effect at December 31, 1991 and March 31, 1991 adjusted for any foreign currency contracts entered into for settlement after these dates.

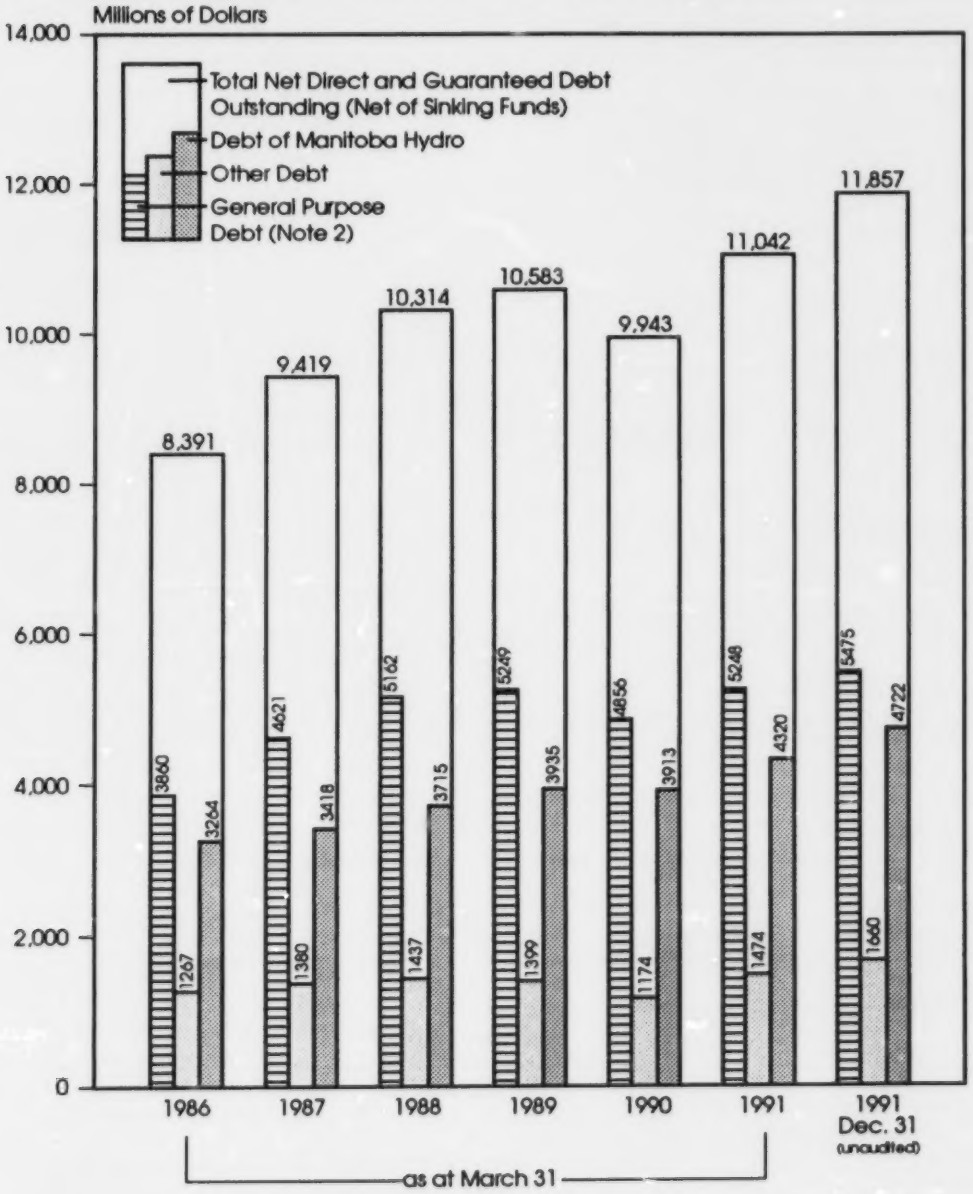
Note 2: The above debt was issued for the following purposes:

	December 31,1991 ($ Thousands)	December 31,1991 (Per Capita) (Note 4)	March 31,1991 ($ Thousands)	March 31,1991 (Per Capita) (Note 4)
General Government Programs (Note 3)	5,474,998	4,995	5,248,144	4,816
The Manitoba Hydro-Electric Board	4,722,296	4,308	4,319,648	3,963
Other	1,660,000	1,514	1,473,899	1,352
	11,857,294	10,817	11,041,691	10,131

Note 3: Includes $364 million of cumulative redeemable 9 1/4% preferred shares issued by Manitoba Properties Inc., which are guaranteed by the Province. Consolidation with the Provincial Accounts would require Manitoba Properties Inc. debt be reclassified as Direct Province of Manitoba debt.

Note 4: Per capita data is based upon population figures at June 1, 1991 and June 1, 1990 as reported by Statistics Canada.

Province of Manitoba
Net Direct and Guaranteed Debt, by Purpose

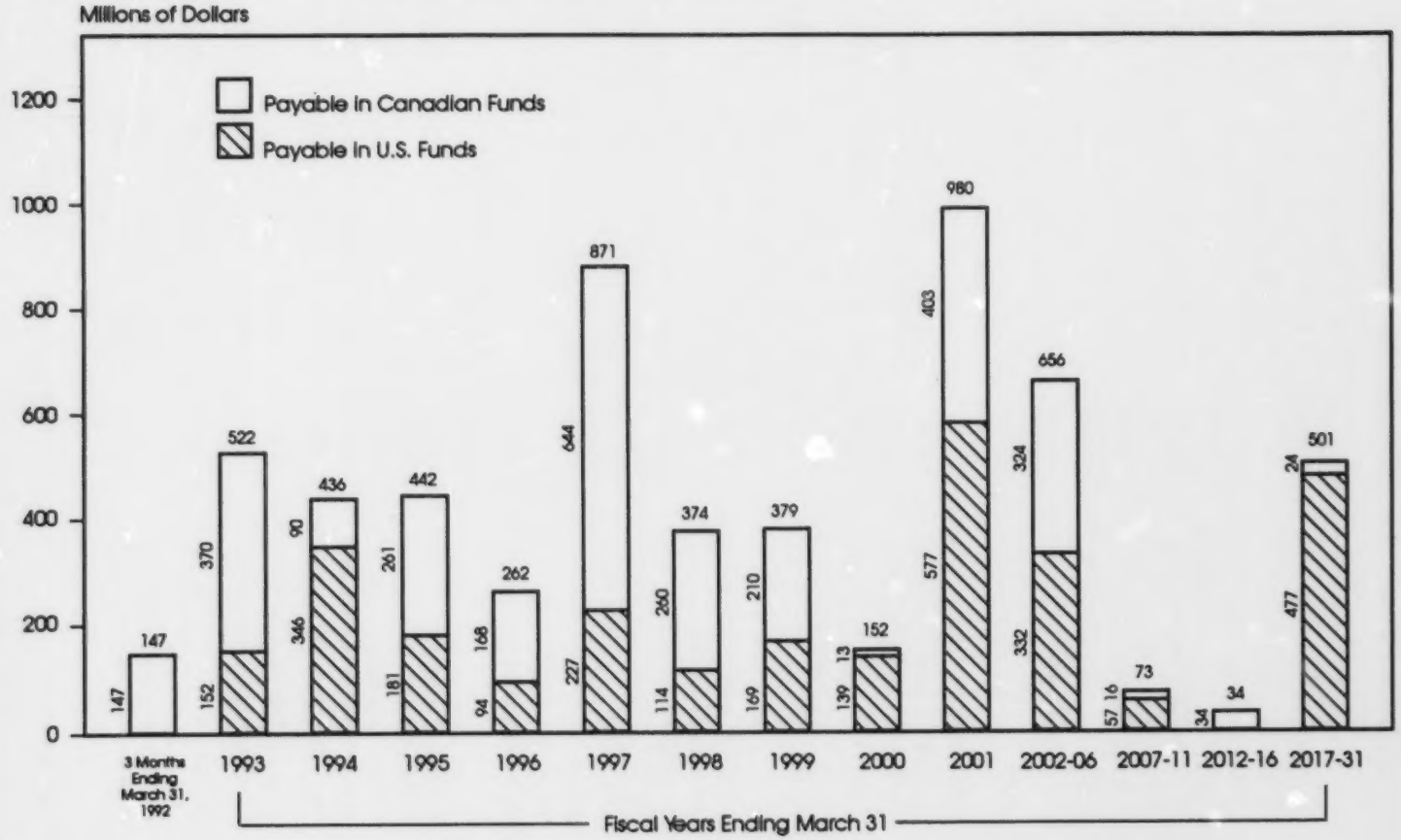


Note 1: The above chart indicates the Total Net Direct and Guaranteed Debt of the Province of Manitoba (after deducting accumulated Sinking Funds) using foreign exchange rates in existence on the dates reflected above.

Note 2: Includes as General Purpose Debt, the cumulative redeemable 9 1/4% preferred shares issued by Manitoba Properties Inc., which are guaranteed by the Province.

Province of Manitoba Direct and Guaranteed Debt

Net Refunding Requirements by Fiscal Year by Currency as at December 31, 1991



The above chart indicates the amount which the Province of Manitoba will have to borrow for the purpose of repaying Direct and Guaranteed Debt outstanding at December 31, 1991 (based on the foreign exchange rates in existence on December 31, 1991).

The Province of Manitoba has five retractable debenture issues and one extendable debenture issue outstanding at December 31, 1991. The maturity date of these issues has been assumed to be the maturity date occurring if the holders of the securities were to consider utilizing the related extendable or retractable options under present market conditions.

MANITOBA FINANCIAL STATISTICS, 1983/84 TO 1992/93

	1983/ 1984	1984/ 1985	1985/ 1986	1986/ 1987	1987/ 1988
	(Millions of Dollars)				
REVENUE					
Manitoba Collections	1,052.2	1,110.5	1,233.9	1,346.2	1,569.7
Income Taxes	707.1	716.5	776.2	879.5	1,156.1
Federal Transfers	1,037.9	1,097.6	1,106.5	1,160.9	1,313.0
Revenue before Stabilization	2,797.2	2,924.6	3,116.6	3,386.5	4,038.8
Fiscal Stabilization	n/a	n/a	n/a	n/a	n/a
Total	2,797.2	2,924.6	3,116.6	3,386.5	4,038.8
EXPENDITURE					
Program Expenditure	2,986.4	3,159.2	3,332.2	3,535.1	3,848.0
Public Debt Costs (Incl. MPI)	239.7	248.0	312.7	410.5	490.4
Total	3,226.1	3,407.2	3,644.9	3,945.6	4,338.4
DEFICIT	428.9	482.5	528.3	559.1	299.6
NET DIRECT AND GUARANTEED DEBT					
General Purpose	2,512.0	3,144.1	3,860.5	4,621.0	5,162.1
Hydro	2,885.6	2,921.2	3,263.7	3,417.5	3,714.6
Other Debt	952.7	1,003.2	1,267.3	1,380.8	1,437.0
Total	6,350.3	7,068.5	8,391.5	9,419.3	10,313.7
ANNUAL CHANGE					
	(Per Cent Change)				
Manitoba Collections	30.8	5.5	11.1	9.1	16.6
Income Taxes	3.2	1.3	8.3	13.3	31.4
Federal Transfers	12.9	5.8	0.8	4.9	13.1
Revenue before Stabilization	16.1	4.6	6.6	8.7	19.3
Total Revenue	16.1	4.6	6.6	8.7	19.3
Program Expenditure	11.4	5.8	5.5	6.1	8.9
Total Expenditure	13.5	5.6	7.0	8.2	10.0
Deficit	(1.3)	12.5	9.5	5.8	(46.4)
Net General Purpose Debt	35.3	25.2	22.8	19.7	11.7
Total Net Debt	11.2	11.3	18.7	12.2	9.5

n/a - not applicable

Note: Totals may not add due to rounding.
Refer to Public Accounts of Manitoba for applicable statements on accounting policy.

1988/ 1989	1989/ 1990	1990/ 1991	1991/ 1992(b)	1992/ 1993(b)	
		(Millions of Dollars)			
					REVENUE
1,743.9	1,817.2	1,754.7	1,776.8*	1,717.3	Manitoba Collections (1)
1,231.0	1,183.4	1,227.9	1,302.5	1,337.3	Income Taxes
1,568.1	1,657.2	1,695.3	1,713.2	1,864.0	Federal Transfers
4,543.0	4,657.8	4,677.9	4,792.5	4,918.7	Revenue before Stabilization
(200.0)	0	67.3	125.0	201.0	Fiscal Stabilization
4,343.0	4,657.8	4,745.2	4,917.5	5,119.7	**Total** (1)
					EXPENDITURE
4,043.7	4,314.2	4,538.3	4,683.2	4,929.5	Program Expenditure (1)
440.6	486.0	498.5	558.3	520.7	Public Debt Costs (Incl. MPI)
4,484.3	4,800.2	5,036.8	5,241.5	5,450.2	**Total** (1)
141.3	142.4	291.6	324.0	330.5	**DEFICIT**
					NET DIRECT AND GUARANTEED DEBT
5,249.0	4,855.6	5,248.1	5,247.4(e)	5,460.0	General Purpose
3,935.2	3,912.6	4,319.6	4,685.3(e)	4,405.0	Hydro
1,399.1	1,174.5	1,473.9	1,683.4(e)	1,876.7	Other Debt
10,583.3	9,942.7	11,041.7	11,616.1(e)	11,741.7	**Total**
		(Per Cent Change)			**ANNUAL CHANGE**
11.1	4.2	(3.4)	1.3	(3.4)	Manitoba Collections
6.5	(3.8)	3.8	6.1	2.6	Income Taxes
19.4	5.7	2.3	1.0	8.8	Federal Transfers
12.5	2.5	0.4	2.4	2.6	Revenue before Stabilization
7.5	7.2	1.9	3.6	4.1	Total Revenue
5.1	6.7	5.2	3.2	5.3	Program Expenditure
3.4	7.0	4.9	4.1	4.0	Total Expenditure
(52.8)	0.8	104.8	11.1	2.0	Deficit
1.7	(7.5)	8.1	0.0	4.1	Net General Purpose Debt
2.6	(6.1)	11.1	5.2	1.1	Total Net Debt

b – Budget e – Current estimate of fiscal year-end

*Includes $20 million from Lottery Revenues.

Note 1: Manitoba Collections, Total Revenue, Program and Total Expenditure for 1989/90 and subsequent years include provision for lotteries funded programs.

...continued

MANITOBA FINANCIAL STATISTICS, 1983/84 TO 1992/93

	1983/ 1984	1984/ 1985	1985/ 1986	1986/ 1987	1987/ 1988
			(Per Cent)		
PER CENT OF GDP					
Revenue	18.8	17.7	17.6	18.3	20.6
Expenditure	21.6	20.6	20.6	21.4	22.1
Deficit	2.9	2.9	3.0	3.0	1.5
Net General Purpose Debt	16.8	19.0	21.8	25.0	26.3
Total Net Debt	42.6	42.8	47.4	51.0	52.6
PER CENT OF REVENUE					
Manitoba Collections	37.6	38.0	39.6	39.8	38.9
Income Taxes	25.3	24.5	24.9	26.0	28.6
Federal Transfers	37.1	37.5	35.5	34.3	32.5
Fiscal Stabilization Fund	n/a	n/a	n/a	n/a	n/a
PER CENT OF EXPENDITURE					
Program Expenditure	92.6	92.7	91.4	89.6	88.7
Public Debt Costs (Incl. MPI)	7.4	7.3	8.6	10.4	11.3
Deficit	13.3	14.2	14.5	14.2	6.9
DOLLARS PER CAPITA			(Dollars)		
Revenue	2,675	2,772	2,929	3,161	3,743
Expenditure	3,085	3,229	3,426	3,683	4,021
Deficit	410	457	496	522	278
Net General Purpose Debt	2,402	2,980	3,628	4,314	4,784
Total Net Debt	6,073	6,699	7,887	8,793	9,559
Memorandum Items					
Population (000's)	1,046	1,055	1,064	1,071	1,079
GDP at market prices ($ Millions)	14,917	16,509	17,706	18,468	19,461

Note: Totals may not add due to rounding.
Ratios computed using unrounded data.

Source: Manitoba Department of Finance

1988/ 1989	1989/ 1990	1990/ 1991	1991/ 1992(b)	1992/ 1993(b)	
		(Per Cent)			
					PER CENT OF GDP
20.2	20.1	19.9	20.7	20.3	Revenue
20.8	20.7	21.2	22.1	21.6	Expenditure
0.7	0.6	1.2	1.4	1.3	Deficit
24.4	20.9	22.1	22.1(e)	21.7	Net General Purpose Debt
49.1	42.8	46.4	48.9(e)	46.6	Total Net Debt
					PER CENT OF REVENUE
40.2	39.0	37.0	36.1*	33.5	Manitoba Collections
28.3	25.4	25.9	26.5	26.1	Income Taxes
36.1	35.6	35.7	34.8	36.4	Federal Transfers
(4.6)	0	1.4	2.5	3.9	Fiscal Stabilization Fund
					PER CENT OF EXPENDITURE
90.2	89.9	90.1	89.3	90.4	Program Expenditure
9.8	10.1	9.9	10.7	9.6	Public Debt Costs (Incl. MPI)
3.2	3.0	5.8	6.2	6.1	Deficit
		(Dollars)			
					DOLLARS PER CAPITA
4,006	4,289	4,345	4,487	4,650	Revenue
4,137	4,420	4,612	4,782	4,950	Expenditure
130	131	267	296	300	Deficit
4,842	4,471	4,806	4,788(e)	4,959	Net General Purpose Debt
9,763	9,155	10,111	10,599(e)	10,665	Total Net Debt
					Memorandum Items
1,084	1,086	1,092	1,096	1,101	Population (000's)
21,541	23,219	23,792	23,741	25,210(f)	GDP at market prices ($ Millions)

b – Budget f – Forecast e – Current estimate of fiscal year-end

* Includes $20 million from Lottery Revenues.

Budget Paper C

TAXATION ADJUSTMENTS

TAXATION ADJUSTMENTS

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Summary of 1992 Tax Changes

	1992/93	Full Year
	(Millions of Dollars)	
Temporary Manufacturing Investment Tax Credit	(3.0)	-
Manitoba Research and Development Tax Credit	(0.5)	(1.5)
Mining Taxation	(0.0)	-
Fuel Taxes	(2.3)	(3.0)
Payroll Tax Credit for Training	(0.5)	(0.5)
Sales Tax: Telecommunications Exemption	(1.2)	(1.3)
Insurance Corporations Tax	0.5	0.7
Net Revenue	(7.0)	(5.6)

■ Temporary Manufacturing Investment Tax Credit

(1992/93 Revenue Impact: -$3.0 million)

A temporary Manufacturing Investment Tax Credit is introduced. It is intended to encourage the expansion and upgrading of Manitoba's manufacturing and processing industries. Investments eligible for the new 10% non-refundable credit include new manufacturing plant and equipment purchased for first-time use in manufacturing or processing in Manitoba. To qualify for the credit, investments must be made after March 11, 1992, and before July 1, 1993.

The amount deductible against Manitoba income tax will be the lesser of the investment tax credit or the Manitoba Corporate Income Tax otherwise payable. Unused investment credits will be available for carry-forward for up to seven years, and carry-back to taxation years ending after March 11, 1992.

Definitions of "investment tax credit", "manufacturing or processing", and "qualified property" will parallel definitions in the federal Income Tax Act.

The total cost to the Province for this initiative is estimated at $8 million over the next seven years.

The Manitoba Manufacturing Investment Tax Credit will be administered on behalf of the Province by Revenue Canada, Taxation.

Inquiries may be directed to:

Federal-Provincial Relations and Research Division
Department of Finance
203–333 Broadway
Winnipeg, Manitoba
R3C 0S9
Telephone: (204) 945–3757

■ Manitoba Research and Development Tax Credit

(1992/93 Revenue Impact: -$0.5 million)

To encourage research and development in Manitoba, a 15% non-refundable Manitoba Research and Development Tax Credit is introduced. Qualifying expenditures must be incurred after March 11, 1992, and be in respect of scientific research and experimental development carried on in Manitoba.

The amount deductible against Manitoba income tax will be the lesser of the Manitoba Research and Development Tax Credit and the Manitoba Corporate Income Tax otherwise payable.

Any unused credit will be available for carry-forward for up to seven years, and carry-back for up to three taxation years ending after March 11, 1992.

The Manitoba Research and Development Tax Credit will reduce qualified expenditures for the purposes of the federal Income Tax Act, including the refundable Investment Tax Credit. Where a corporation does not anticipate having taxable income and prefers to make use of the refundable federal tax credit provisions, it may renounce its rights to the provincial credit in order to maximize its federal refund.

The Manitoba Research and Development Tax Credit will be administered on behalf of the Province by Revenue Canada, Taxation.

Inquiries may be directed to:

Federal-Provincial Relations and Research Division
Department of Finance
203-333 Broadway
Winnipeg, Manitoba
R3C 0S9
Telephone: (204) 945-3757

■ Mining Taxation

(1992/93 Revenue Impact: negligible)

Interim Mining Tax

The 1989 Manitoba Budget introduced a 1.5% temporary refundable tax on mining profits until the industry was able to resolve shortcomings in the allocation of provincial income tax. The tax, which was to expire at the end of 1991, will be extended until an acceptable solution to the allocation issue is implemented.

Capital Tax: Mining Exploration Expenses

Under the Manitoba Corporation Capital Tax Act companies that capitalize exploration and development costs have those amounts included in their capital tax base. The Corporation Capital Tax Act will be amended to allow a deduction of these items. This aligns Manitoba's treatment with that of other provinces.

Mining Tax Holiday for New Mines

A mining tax holiday will be implemented for companies mining new mines in Manitoba after January 1, 1993. Qualifying mining operators will not be required to pay the mining tax until their profits for mining tax purposes equal their capital outlays in opening the new mine. At the end of the tax holiday, operators will inherit the undepreciated balance of book assets.

The holiday will not apply to extensions of existing mines, re-opening closed mines, or other operations on ore bodies which were previously mined.

Expenditures which qualify for the holiday must be incurred after March 11, 1992.

Mining Tax Exploration Incentive

Mining companies which significantly increase their exploration activities in search of new mines in Manitoba will be entitled to a deduction equal to 150% of exploration expenditures in a given year that exceed the average of these expenditures in the previous three years. The incentive is in effect from January 1, 1992.

Inquiries relating to mining taxation should be directed to:

Taxation Division
Department of Finance
Room 700, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: (204) 945–3296 in Winnipeg
1-800-782-0318 outside Winnipeg (toll free)

■ Fuel Taxes

(1992/93 Revenue Impact: -$2.3 million)

Railway Diesel Fuel Tax

The Government recognizes the importance of the railway transportation industry to Manitoba's economy. As a measure to improve the competitive environment for railway companies operating in Manitoba, the locomotive railway diesel fuel tax will be reduced from 13.6¢ per litre to 12.6¢ per litre, effective July 1, 1992.

In addition to the rate reduction, administrative changes to the locomotive railway diesel fuel tax will be made to parallel the collection practices of other tax-levying provinces. The tax will be assessed as fuel is consumed in the province.

The full-year revenue decrease associated with these measures is $1.6 million.

Aviation Fuel Tax

The tax on aviation fuel will be decreased from 5.8¢ to 5.0¢ per litre, effective July 1, 1992. The new rate is 2¢ per litre less than the rate in Saskatchewan, and the same as in Alberta.

The full-year revenue decrease associated with this measure is $1.4 million.

Inquiries regarding fuel taxation should be directed to:

Taxation Division
Department of Finance
Room 700, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: (204) 945–3297 in Winnipeg
1-800-782-0318 outside Winnipeg (toll free)

■ Payroll Tax Credit for Training Costs

(1992/93 Revenue Impact: -$0.5 million)

The 1990 Budget introduced a payroll tax credit to encourage private businesses to increase their investment in training. This initiative provides Manitoba firms with a maximum 0.3 per cent payroll tax credit to offset qualifying employer-sponsored training and development costs.

At present, the credit is restricted to goods-producing firms. The credit will be extended to centralized operations of service-oriented firms. Examples of qualifying operations include corporate headquarters, as well as centralized telecommunications, data processing, research and development, or advertising services. Eligible training expenditures incurred after December 31, 1991, will qualify for the credit.

Inquiries regarding the payroll tax credit should be directed to:

Taxation Division
Department of Finance
Room 300, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: (204) 945–5704 in Winnipeg
1-800-782-0318 outside Winnipeg (toll free)

■ Sales Tax: Telecommunications Exemption

(1992/93 Revenue Impact: -$1.2 million)

A growing number of businesses in Manitoba and across Canada rely on telecommunications services. The costs of these services vary significantly according to the distance a firm is located from its markets.

To help improve the competitiveness of business telecommunications services in Manitoba, the provincial sales tax on 1-800 toll line charges will be eliminated, effective May 1, 1992.

The full-year revenue decrease associated with this measure is $1.3 million.

Inquiries regarding the exemption should be directed to:

Taxation Division
Department of Finance
Room 115, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: (204) 945–6444 in Winnipeg
1-800-782-0318 outside Winnipeg (toll free)

■ Insurance Corporations Tax

(1992/93 Revenue Impact: +$0.5 million)

The Insurance Corporations Tax is assessed on insurance corporation revenues derived from policy premiums. Currently, insurance premiums for life, accident and sickness policies are taxed at 2%, while other types of premiums are taxed at 3%. Virtually all insurance policy corporations, except Manitoba Blue Cross, pay the tax.

To ensure that the corporation receives uniform treatment with other insurance corporations, effective July 1, 1992, Blue Cross will no longer be exempt from the Insurance Corporations Tax. This aligns Manitoba's practice with all provinces except Ontario.

Inquiries should be directed to:

Superintendent of Insurance
Consumer and Corporate Affairs
1142-405 Broadway
Winnipeg, Manitoba
R3C 3L6
Telephone: (204) 945-2542

■ Anti-Avoidance, Tax Equity and Technical Adjustments

(1992/93 Revenue Impact: nil)

In order to address a number of tax equity issues, the Province will introduce legislation which will provide for the introduction of Provincial General Anti-Avoidance Rules. The Province will also proceed with the creation of an independent Tax Appeals Commission, and will implement other technical adjustments related to the administration of Manitoba's tax legislation.

Anti-Avoidance Rules

General Anti-Avoidance Rules will cover those provincial taxes which can be avoided by practices such as inter-provincial leasing arrangements, inter-provincial financing, or sales of shares rather than assets.

Avoidance problems have been identified in the Health and Post-Secondary Education Tax Levy (Payroll Tax), the Corporation Capital Tax Act and, to a lesser extent, the Retail Sales Tax Act. An example is the use of partnerships to avoid the Health and Post-Secondary Education Tax Levy associated corporations rules.

The General Anti-Avoidance Rules will be similar to section 245 of the federal Income Tax Act, based on the intent to tax transactions, events or capital except where these are specifically exempt. The rules are intended to reduce the use of convoluted arrangements which serve no business purpose other than tax avoidance. Tightening enforcement of the tax provisions is important to protect Manitoba's targeted tax incentives.

The General Anti-Avoidance Rules will have no direct revenue implications; their purpose is to ensure compliance with current taxation legislation, and to prevent erosion of the tax base.

Appeals

An independent Tax Appeals Commission will be established to hear appeals from Manitoba taxpayers on Retail Sales Tax, Payroll Tax, and Corporation Capital Tax. The Commission will review taxpayer appeals against assessments, and conduct an investigation when necessary in order to affirm, rescind or amend the assessment. It is expected that the Commission's decisions will resolve most appeals. Taxpayers will retain the current rights of appeal to the Minister of Finance and the Court of Queen's Bench.

The Commission will also be charged with assessing requests for remissions of provincial taxes or fees, and recommending approval or denial of same by the Minister of Finance or the Lieutenant Governor in Council, pursuant to The Financial Administration Act.

Technical Adjustments

Legislation will be introduced to authorize the Government to institute civil actions against directors of corporations who fail to exercise due diligence in assuring remittance of provincial taxes collected or due by the corporation. The provisions will apply only in cases of clear negligence or fraud.

Additional technical changes related to fines and penalties, and smuggling will be introduced.

For further information on the above matters, contact:

Taxation Division
Department of Finance
Room 700, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: (204) 945–3758

1992 Intercity Comparison of Annual Personal Costs and Taxes

Family of Four at $40,000 Total Income

	Vancouver	Calgary	Regina	Winnipeg	Toronto	Montreal	Halifax
Net Provincial Income Tax [1]	2,717	2,653	3,438	**3,063**	2,796	2,513	3,139
Property Tax [2]	1,962	1,965	1,715	**2,337**	2,330	2,272	1,524
Retail Sales Tax [3]	707	0	739	**945**	1,002	1,137	982
Gasoline Tax [4]	195	180	200	**210**	294	384	252
Health Premiums	840	624	0	**0**	0	0	0
Auto Insurance [5]	1,159	728	538	**531**	945	765	521
Levies	7,580	6,150	6,630	**7,086**	7,367	7,071	6,418
Home Heating [2]	449	621	642	**824**	631	1,177	1,027
Electricity [6]	536	577	604	**490**	723	518	782
Telephone [7]	195	141	125	**147**	184	184	202
Living Costs	1,180	1,339	1,371	**1,461**	1,538	1,879	2,011

1 Income is sum of Earnings and Family Allowance. The family consists of a taxfiler, dependent spouse, 2 children—1 under age 6, 1 between 12 and 15. Non-refundable credits for CPP and UIC contributions are allowed. Family allowances are adjusted for Alberta and Quebec. Income taxes include surtaxes and are net of tax reductions and refundable sales and property tax credits. For Quebec, taxes are reduced by the value of federal tax abatement ($861).

2 Property tax and home heating are from CMHC Affordability Measure, January 1992, which uses averages of starter homes in metropolitan areas.

3 Retail Sales Tax is based on expenditure patterns in Statistics Canada's 1986 Family Expenditure Survey.

4 Gasoline Tax cost is based on the annual consumption of 2,000 litres of regular gasoline using March 1, 1992 rates. Amount for Montreal includes estimated QST.

5 Auto insurance premiums are calculated for a married couple, over 25 years of age, driving a 1989 Dodge Caravan Wagon. Coverage includes $1 million third party liability, $250 collision deductible ($200 in Winnipeg, Regina and Vancouver) and $200 comprehensive deductible ($50 in Montreal and Toronto, $100 in Calgary and Halifax, and $150 in Vancouver).

6 Electricity charges represent an annual bill for 9,000 kW h. Rates are as at May 1, 1991.

7 Telephone charges are for the main telephone in an individual residence as at February 24, 1992.

Interprovincial Comparison of Major Tax Rates, 1987 and 1992

	B.C.		Alta.		Sask.		Man.		Ont.	
	1987	1992	1987	1992	1987	1992	1987	1992	1987	1992
Personal Income Tax [A,B]	51.50	51.50	46.50	46.50	50.00	50.00	**54.00**	**52.00**	50.00	53.00
Flat Income Tax [C]	—	—	1.00	0.50	1.50	2.00	**2.00**	**2.00**	—	—
Surtax	No	Yes	Yes	Yes	Yes	Yes	**Yes**	**Yes**	Yes	Yes
Corporation Income Tax										
Small [D]	11.00	9.00	5.00	6.00	10.00	10.00	**10.00**	**10.00**	10.00	10.00
Large	15.00	15.00	15.00	15.50	17.00	16.00 [E]	**17.00**	**17.00**	15.50	15.50
Capital Tax [F]	—	—	—	—	0.50	0.60	**0.30**	**0.30**	0.30	0.30
Banks	2.00	2.00	0.00	2.00	3.00	3.00	**3.00**	**3.00**	0.80	1.00
Employer Payroll Tax	—	—	—	—	—	—	**2.25**	**2.25**	0.00	1.95
Small Firms [G]	—	—	—	—	—	—	**2.25**	**0.00**	0.00	0.98
Health Care Premiums ($)	456	840	432	624	—	—	—	—	714	0.00
Sales Tax [H]	6.00	6.00	—	—	7.00	7.00	**7.00**	**7.00**	7.00	8.00
Diesel Fuel (¢/l) [I]	8.08	10.20	5.00	9.00	7.00	10.00	**9.90**	**10.90**	9.90	14.30
Gasoline (¢/l) [I]	7.64	9.76	5.00	9.00	7.00	10.00	**8.00**	**10.50**	8.30	14.70
Tobacco Tax (¢/cigarette)	3.88	9.04	4.00	7.00	4.68	6.68	**4.60**	**8.00** [K]	2.30	6.50 [K]

Tax went up | Tax went down | — Not applicable

All figures are percentages unless otherwise indicated.

(A) Quebec has its own provincially administered personal income tax system. All other provinces' personal income taxes are collected and administered by the federal government.

(B) British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec provide tax reductions at low income levels.

(C) Manitoba and Saskatchewan assess the flat tax on "net income", and Alberta assesses the flat tax on "taxable income".

(D) Some provinces, including Manitoba, have special provisions for new small business corporations.

(E) Saskatchewan's large corporate income tax rate increased from 15% to 16% on January 1, 1992.

Que. 1987	Que. 1992	N.B. 1987	N.B. 1992	N.S. 1987	N.S. 1992	P.E.I. 1987	P.E.I. 1992	Nfld. 1987	Nfld. 1992	
—	—	58.00	60.00	56.50	59.50	55.00	59.50	60.00	62.00	**Personal Income Tax** [A, B]
—	—	—	—	—	—	—	—	—	—	**Flat Income Tax** [C]
—	—	No	Yes	No	Yes	No	Yes	No	No	**Surtax**
										Corporation Income Tax
3.22	3.75	9.00	9.00	10.00	10.00	10.00	10.00	10.00	10.00	**Small** [D]
5.90	6.90	15.00	17.00	15.00	16.00	15.00	15.00	16.00	17.00	**Large**
0.48	0.56	—	—	—	—	—	—	—	—	**Capital Tax** [F]
0.97	1.12	2.00	3.00	1.50	3.00	0.00	3.00	2.00	3.00	**Banks**
3.22	3.75	—	—	—	—	—	—	0.00	1.50	**Employer Payroll Tax**
3.22	3.75	—	—	—	—	—	—	—	—	**Small Firms** [G]
—	—	—	—	—	—	—	—	—	—	**Health Care Premiums ($)**
9.00	8.00	11.00	11.00	10.00	10.00	10.00	10.00	12.00	12.00	**Sales Tax** [H]
12.45	19.10 [J]	8.00	13.70	9.10	14.20	10.40	11.80	12.10	15.60	**Diesel Fuel (¢/l)** [I]
14.40	19.20 [J]	8.40	12.70	8.70	12.60	8.90	11.80	9.80	13.70	**Gasoline (¢/l)** [I]
4.52	6.88 [K]	4.12	9.38 [K]	4.50	6.80 [K]	3.50	9.00	4.78	6.78 [K]	**Tobacco Tax (¢/cigarette)**

(F) Manitoba imposes a 0.2% surtax on taxable paid-up capital in excess of $10 million.

(G) Firms with payroll of $200,000.

(H) Retail Sales Tax refers to general rate only. Quebec and the Atlantic provinces apply the sales tax on top of the GST.

(I) Petroleum taxes are for regular unleaded gasoline and for highway diesel fuel. British Columbia, Nova Scotia and Prince Edward Island rates include *ad valorem* taxes, which are adjusted periodically depending on pump market prices.

(J) Gasoline and diesel fuel taxes in Quebec include estimated QST of 4.7¢/l for gasoline, and 4.6¢/l for diesel fuel. Commercial purchasers may qualify for a rebate of QST.

(K) These provinces also apply sales taxes to tobacco products.

MANITOBA'S COMPETITIVE ENVIRONMENT FOR MANUFACTURING

Introduction

The economic realities of the late 1980s and early 1990s have translated into increased competition for firms in Manitoba. The globalization of the world economy has intensified interprovincial and international competitive pressures, especially with neighbouring American states.

Competitiveness is affected by many elements: labour costs and productivity differentials, interest and exchange rate movements, access to capital, trade barriers, consumer behaviour, and other institutional conditions. Fundamental changes in these factors have re-shaped the playing field on which all firms, regardless of location or size, must now compete.

Tax rates are frequently used as measures of investment climate and governments' fiscal policies. Tax rates alone, however, do not define the competitive environment in which firms operate. Structural factors such as those noted above are equally important and, when considered alongside taxation, influence a firm's overall ability to compete. Taxation is an important element of business decision-making.

Business Taxation in Manitoba

Since 1988, the Manitoba Government has made competitive taxation one of its primary tools for promoting economic growth. Measures to improve Manitoba's tax competitiveness have focussed on holding tax rates and providing targeted tax relief. This is in contrast to most other provinces, where tax burdens have generally increased. Initiatives include:

- increases to the payroll tax exemption from $100,000 to $600,000, eliminating the tax for many small firms; and
- a payroll tax credit for employer-sponsored generic training, reducing the effective tax rate from 2.25% to 1.95%, the same rate as Ontario's.

The 1992 Budget introduces a temporary Manufacturing Investment Tax Credit and the Manitoba Research and Development Tax Credit.

A Comparison of a Manufacturing Firm in Manitoba to Other Jurisdictions

Manufacturing is an important indicator of the vitality of Manitoba's economy, contributing 10 per cent of GDP and accounting for 11 per cent of employment. This industry, as the largest goods-producing sector in Manitoba, is exposed to more international competition than most other sectors.

The following analysis compares a small and larger "typical" manufacturing firm in Winnipeg and Brandon with several Canadian and U.S. cities in terms of their operating costs and taxes (federal, provincial, state and local). A brief description of the methodology and assumptions is appended in the notes at the end of the paper.

The following tables summarize the operating costs and taxes for a small and a larger manufacturing firm in each city.

Small Manufacturing Firm: Operating Costs and Taxes

Thousands of Canadian Dollars

	Vancouver	Calgary	Regina	Winnipeg	Toronto	Montreal	Halifax	Chicago	Minnpls.	Fargo	Brandon
Gross Sales	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Operating Costs	2,853	2,631	2,885	2,589	2,718	2,841	2,817	2,677	2,848	2,458	2,436
Wages/Salaries	766	600	613	537	656	580	571	566	593	440	433
Materials	1,759	1,759	1,759	1,759	1,759	1,759	1,759	1,759	1,759	1,759	1,759
Utilities	21	22	25	19	31	26	33	28	21	22	19
Depreciation	146	137	144	146	139	139	136	152	153	149	144
Financing	161	113	123	128	133	137	118	171	120	88	81
Taxes	106	155	136	174	140	156	162	202	224	230	221
Sales	3	–	2	3	3	3	6	4	2	2	3
Payroll	58	48	40	35	54	58	38	60	76	44	29
Local	34	24	19	27	40	34	28	50	37	2	8
Capital	-	-	0	6	1	11	-	3	-	-	5
Income	11	82	75	102	42	49	90	85	109	182	176
Net Income	40	214	199	236	142	203	221	121	130	312	343

Note: Totals may not add due to rounding.

Larger Manufacturing Firm: Operating Costs and Taxes

Thousands of Canadian Dollars

	Vancouver	Calgary	Regina	Winnipeg	Toronto	Montreal	Halifax	Chicago	Minnpls.	Fargo	Brandon
Gross Sales	**35,000**	**35,000**	**35,000**	**35,000**	**35,000**	**35,000**	**35,000**	**35,000**	**35,000**	**35,000**	**35,000**
Operating Costs	**32,034**	**29,910**	**30,260**	**29,367**	**30,729**	**29,841**	**29,686**	**29,967**	**29,970**	**28,127**	**27,978**
Wages/Salaries	8,424	6,603	6,745	5,912	7,212	6,379	6,283	6,230	6,521	4,840	4,767
Materials	20,606	20,606	20,606	20,606	20,606	20,606	20,606	20,606	20,606	20,606	20,606
Utilities	228	243	303	203	342	270	336	378	263	287	203
Depreciation	1,710	1,602	1,689	1,705	1,628	1,631	1,589	1,780	1,785	1,741	1,679
Financing	1,065	856	917	941	941	955	872	973	794	653	724
Taxes	**1,672**	**2,450**	**2,278**	**2,811**	**2,225**	**2,317**	**2,543**	**2,690**	**2,880**	**3,230**	**3,213**
Sales	35	–	25	39	30	29	69	46	24	18	39
Payroll	633	533	436	523	597	641	415	665	833	485	422
Local	238	261	179	258	314	306	281	313	277	24	86
Capital	-	-	63	105	63	120	-	27	-	-	99
Income	766	1,656	1,574	1,887	1,221	1,220	1,778	1,641	1,746	2,703	2,568
Net Income	**1,294**	**2,639**	**2,463**	**2,822**	**2,045**	**2,842**	**2,771**	**2,343**	**2,151**	**3,643**	**3,809**

Note: Totals may not add due to rounding.

Operating Costs

Manufacturing wage rates in Winnipeg are the lowest among the major cities surveyed; only Brandon and Fargo are lower. Lower living costs in Manitoba allow employees to maintain a high standard of living with relatively lower wage rates. Utility costs are the lowest. Lower land and building costs for firms in Winnipeg and Brandon, however, are partly offset when financed at higher Canadian interest rates.

Taxes

All taxes, except corporate income taxes, directly affect the cost of doing business. Income taxes, on the other hand, depend on a firm's revenue, which varies widely.

Lower manufacturing wage rates result in lower total payroll tax liabilities for the firms in Winnipeg and Brandon since the calculation of many of these taxes are based directly on wage levels. The small firm in each of these cities also benefits fully from Manitoba's provincial payroll tax exemption. Total payroll taxes for the Manitoba firms are the lowest among the 11 cities. (See note 3 on page 17 of this paper.)

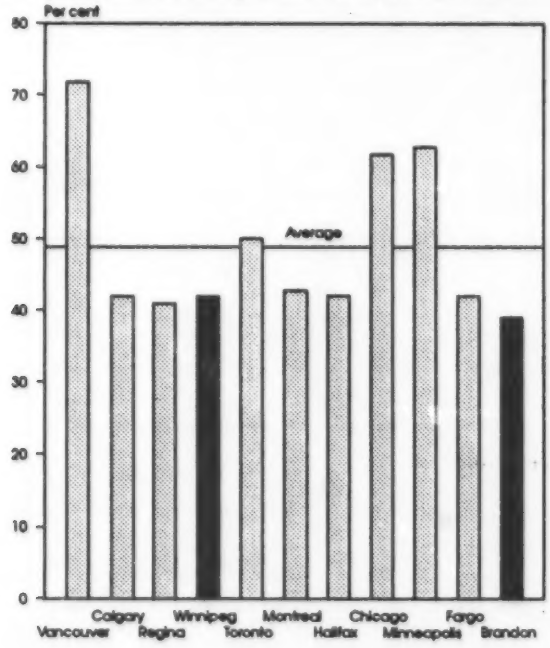
Local taxes for manufacturing firms are second lowest in Brandon and fifth lowest in Winnipeg among the cities examined.

Capital taxes place Manitoba firms at a disadvantage, with capital tax liabilities for the larger firm 31 per cent higher than the average liability for firms in jurisdictions which levy a capital tax.

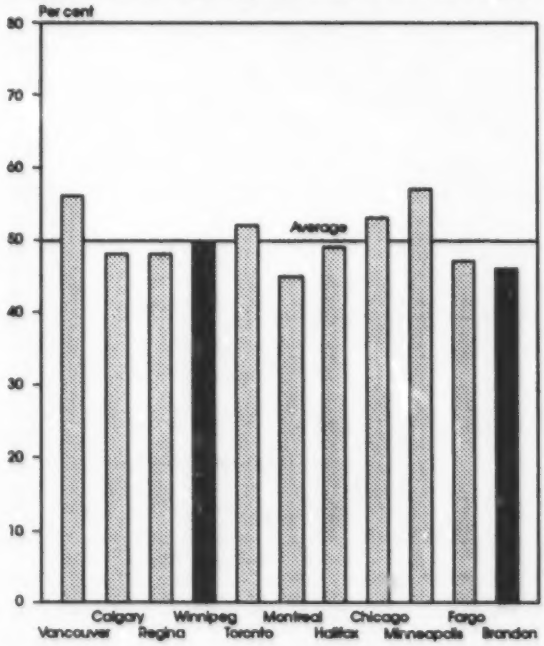
Effective Tax Rates

A common measure used to assess tax burdens is the effective rate, defined as total taxes as a portion of pre-tax net income. The following graphs compare the overall effective tax rates for the 11 cities. Winnipeg and Brandon, for both small and larger firms, have effective tax rates either at or below the 11-city average.

Small Manufacturing Firm: Effective Tax Rates



Larger Manufacturing Firm: Effective Tax Rates



The graphs show that effective tax rates are highest for the larger metropolitan areas and lower for smaller centres such as Fargo and Brandon. These rate differences among the jurisdictions are more pronounced for small firms than larger firms, suggesting that higher operating costs in the larger cities have a greater impact on small firms than on larger firms.

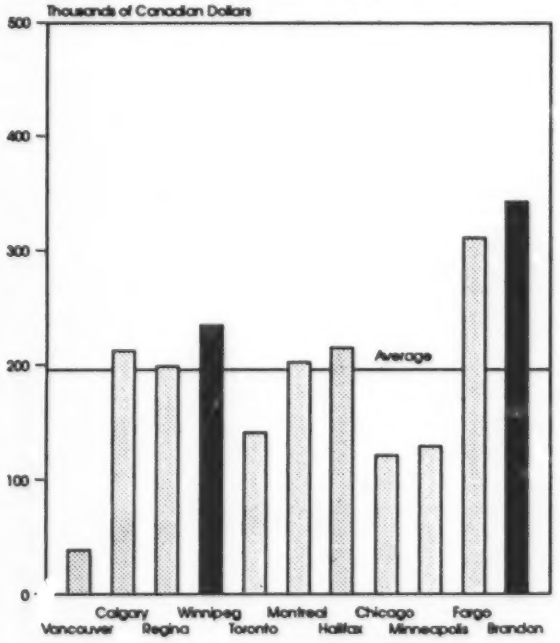
For the small manufacturing firm, Winnipeg's rate ranks fourth lowest while Brandon has the lowest effective tax rate. For the larger manufacturing firm, Winnipeg's rate ranks seventh lowest, and Brandon's rate is the second lowest, after Montreal.

Net Income

The favourable position of the Manitoba firms is improved further when all costs and taxes are taken into account in calculating net income. Net income in Winnipeg and Brandon is above the 11-city average for both firms.

For the small manufacturing firm, Winnipeg's net income ranks third highest while Brandon has the highest level. For the larger manufacturing firm, Winnipeg's net income ranks fourth highest after Montreal, and Brandon, again, is the highest of all cities.

Small Manufacturing Firm: Net Income



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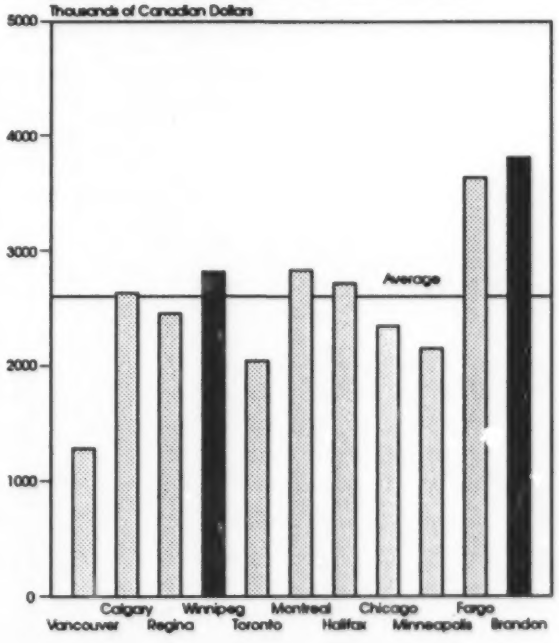

Conclusion

Lower market costs and moderate overall effective tax rates are positive factors for Manitoba firms. Manitoba manufacturing firms can compete with firms in other jurisdictions, both in Canada and the U.S.

Over the past few years, while other provinces have increased a number of taxes, Manitoba has held the line and reduced some taxes. If these trends continue, the competitive advantages for manufacturing firms in Manitoba will continue.

Notes

(1) Tax rates and structures are those in effect at the start of 1992. Statistics Canada's *1987 Corporation Financial Statistics* and the *1987-1988 Small Businesses: A Statistical Summary*, as well as other publicly available data were used to generate profiles of a typical Winnipeg firm – at start-up and in the fifth year. The taxes and costs faced by identical firms in each of the other cities were calculated. The firms are assumed to be stand-alone, private corporations in the fifth year of operation.

Start-up costs in each city include:

- buildings – costs vary in relation to construction wages;
- the average cost of fixed-size serviced industrial land; and
- constant machinery and equipment costs.

Gross sales are fixed at $3 million for the small firm and $35 million for the larger firm. Costs of materials used in production are consistent in each city. Utilities include electricity charges and basic telephone rental service rates (excluding toll and other variable charges). The small and the larger firms are assumed to have 20 and 220 employees, respectively.

The small and larger firms are assumed to have borrowed 65% and 55%, respectively, to finance their start-up costs. Financing charges are calculated using Canadian and U.S prime interest rates in effect at the end of 1991. The larger firm pays one percentage point above prime; the smaller pays three percentage points above prime. All figures are in Canadian dollars with a $0.87 Canada-U.S. exchange rate.

(2) Some costs, taxes and levies are not included, notably:

- transportation costs;
- fuel taxes;
- workers compensation premiums (Workers' Compensation in the U.S. varies greatly among jurisdictions and among individual firms – both in relation to the composition of workers and the claims experience of a specific firm); and
- U.S. employer-paid private health care costs.

(3) Payroll taxes include:

- Canada pension/disability and U.S. social security (old age, survivor, disability, and hospital insurance) levies;
- unemployment insurance contributions;
- health care premiums (Vancouver and Calgary); and
- provincial payroll taxes.

(4) Local taxes include property/realty and business occupancy taxes.